The Economics of Retirement Systems of Alabama's Investments on the State Economy and the RSA

presented by
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The purpose of this report is to estimate the economic benefits of the Retirement Systems of Alabama (RSA)’s Alabama investments.

- As of FY 2011, the RSA has opted to invest close to 10% of its funds in Alabama’s economy and on Alabama businesses.

- This study concentrates on RSA’s investments in Alabama for the years 1990 to 2011.
RSA’s main function and responsibility is to assure funded and sound retirement benefits for its members.

- This is achieved by:
  - mandatory member contributions
  - yields from investments
  - and employer contributions.

- Most employer contributions are funded by appropriations from the state Legislature and local governmental entities.

- Investment of funds is an extremely important element of any pension funding mix.

- In this report, we try to determine the economic benefits accrued to Alabama and the RSA attributable to the RSA’s state-bound investments.
Economic Data

We used data from RSA’s investments in Alabama’s economy from 1990 to 2011.

The primary data was adjusted as follows:

- We converted it to 2011 dollars.
- The information was indexed and categorized based on the nature of the investment.

RSA has invested $4.6 billion in Alabama’s economy from 1990 to 2011.
Economic Data (cont’d)

- Adjusted to 2011 prices (or after adjusting for inflation), the RSA’s total investment in Alabama’s economy is $5.6 billion from 1990 to 2011.

- Of that, $1.9 billion of investments were business loans, which terms have expired and have already been paid back to the funds.

- For the remainder, an approximate amount of $2.9 billion of RSA’s funds are still circulating in the state’s economy.
We concentrated on three distinct investment classes. These categories are as follows:

1. First, we categorized certain RSA investments as purely business loans by RSA. These are the investments that the RSA has already recovered in full.

2. The second category includes investments that RSA owns and operates.
3. The third category is the economic benefits that the state receives from RSA-sponsored advertisement and promotional campaigns.

Through Raycom Media, Inc. and Community Newspaper Holdings, Inc., the RSA has orchestrated $55.4 million worth of annual print and internet exposure, and television broadcast airtime in support of Alabama’s tourism industry and RTJ facilities.
Average Annual Impact of Alabama Investments

From 1990 to 2011 (22 years), RSA’s **average annual economic contribution** is as follows:

- **$1.27 billion** of goods and services (GDP)
- **$645 million** of additional earnings
- **12,844** FTE jobs

For 2011 alone, the impact is as follows:

- **$1.4 billion** of goods and services (GDP)
- **$666.2 million** of additional earnings
- **15,542** FTE jobs
It is our estimate that from 1990 to 2011, RSA’s investment in Alabama generated a total aggregate economic impact of:

- $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.
Tax Impact on State Budgets

From 1990 to 2011, the state is estimated to have received:

$1.1 billion additional tax revenue

On average, the state’s two operating budgets, Education Trust and General Funds, received:

$48.7 million additional revenues per year

Approximately 80% of the additional taxes were collected in the Education Trust Fund (ETF).
Finally, it is important to note that our calculations concentrated on the state’s economic impact only.

We did not include any economic impacts and taxes that may have been realized by local and municipal governments who also make employer contributions to the funds.

Based on our previous research, the ratio of local taxes to state taxes is approximately 40%.

That is, RSA’s Alabama-bound investments could potentially have generated an additional $428 million of revenues for local and municipal governments in Alabama.
For comparison, a hypothetical scenario:

What if RSA had invested the same amount in the bond and equity market instead of investing in Alabama between 1990 and 2011?

We decided to compute the likely cumulative return RSA would have earned in that scenario.
Assumptions in “What If” Scenario

- We assumed that for each year, the Alabama-bound funds were invested in the bond and equity markets and yielded the same rate of return as the rest of RSA’s investments.

- We also assumed that each year the principle and the realized interest were re-invested into the bond and equity markets.

- In other words, we assumed an investment maturity of one year.
Had RSA instead invested those funds in the market:

- It is our assessment that had the $5.6 billion of investment been placed in the bond and equity market, it could have generated a return of $541.6 million for RSA funds.

- ROI for this class of investment would have been equal to approximately 10%.

- By way of comparison, RSA’s investments in Alabama are estimated to have generated $1.1 billion of additional tax revenues for the state.

- That translates to a ROI of 19% for the state.
Had RSA instead invested those funds in the market:

Moreover, over the 1990-2011 period, the state has gained $28 billion in cumulative additional GDP, $14 billion in additional cumulative earnings and 282,564 FTE jobs.

Our computation yields an average multiplier value of 2.57 for RSA’s Alabama-bound investments.

That is, for every $1 of RSA funds invested in Alabama, the state has gained an additional return of $1.57.
Comparison of Hypothetical vs. Alabama Investment Returns

Hypothetical return from equity and bond markets

$541.6 million

Return on RSA’s Alabama Investments

- $1.1 billion in state tax revenues
- $14.3 billion payroll
- 282,564 FTE jobs
- $28 billion additional GDP