

*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.

Categories of RSA's Alabama Investments

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.**

Categories of RSA's Alabama Investments (cont'd)

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

Bottom Line:

Total Economic Impact

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).

Tax Impact on State Budgets (cont'd)

- 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.**

Final Words: The “What If” Scenario

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

For comparison, a hypothetical scenario:

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