



Fiscal Policy

MEMORANDUM

A Better than Average Return on Investment

The Indiana Fiscal Policy Institute has been researching state and local fiscal issues for almost ten years, made possible by the support of business and labor organizations from around the midwest. These organizations have supported and promoted the Institute out of a belief that publishing quality research on state fiscal policy results in better government and a higher quality of life for everyone. However, the election in November of 1996 brought a return on the investment of those organizations in more tangible terms that should not be overlooked.

In the past decade, the Institute published several research articles arguing that Indiana taxpayers as well as public pension holders would be better served by allowing state pension funds to invest in equities. In 1996, although not a part of any campaign to influence the vote, the Institute's report, "Does Equity Investing Pose an Unacceptable Risk for Public Pension Funds," identified more than \$43 billion in savings (either in the form of lower taxes or higher benefits) that would result from investing Indiana's pensions in a conservative portfolio of stocks and bonds over the next thirty years. The present value of that amount, \$10.95 billion, is equal to approximately 80% of the total state and local tax burden paid by both businesses and individuals in 1995.

The Institute's report was referenced by business leaders, legislators, educators, and labor leaders in 117 different print media prior to November of last year. Although it is always dangerous to take credit for the outcome of a public policy process, many observers of the equity investment issue have given the Institute's report a significant portion of the credit for the "yes" vote. The Institute's unique contribution was to identify for taxpayers what the costs or the benefits of their respective votes would be.

It is an ongoing struggle for any business or not-for-profit to demonstrate the value it adds to its customers' or members' bottom lines. Even though the Institute, as a not-for-profit, is engaged in general public policy research, our work product has a definite and measurable impact on the cost, as well as the quality of government services in this State. The passage of ballot Question 2 provides a unique opportunity to calculate that impact and make it real to our members.

(Continued on reverse side.)

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Perhaps the clearest way of showing the value to Indiana taxpayers, as individuals, employers and labor organizations, is to calculate the return on investment [ROI] generated by the savings from equity investing by state pension funds as a consequence of all the contributions made to establish and then continue the work of the IFPI over its ten year history. Astoundingly, when the math is done, the ROI on the savings in business taxes alone in Indiana, expressed in percentage terms, is 25,428%. This return assumes that the work of the IFPI should receive 20% of the credit for the public's decision last November.

Since not all businesses or labor organizations support the Institute, a fair question from an IFPI member is, "If my membership contributions supporting the overall work of the Institute were considered as investments, and assuming that all I cared about was the tax savings from Question 2, what percentage ROI did I receive from my particular contributions over the past 10 years?" Again, assuming that 20% of the credit belongs to the Institute, the return to an IFPI member who contributed on average \$3,500 per year over the past 10 years, is approximately 157%. (Note that the taxpayer savings are based on an Institute model of the tax liability of a small manufacturing firm.)

The Indiana Fiscal Policy Institute's reason for being is not the generation of taxpayer returns to its members. However, there cannot be a more obvious example of the benefit of independent, non-partisan research into state and local fiscal policy than was provided last November. The IFPI provides a "bottom-line value" to the people of Indiana and to its public spirited members. Thank you for making the Institute's contribution a reality.

Latest IFPI Reports

Report No. 13

"The Child Welfare System in Indiana," October 1996

Report No. 14

"Distributed of Poor Relief in Indiana," February 1997

Fiscal Policy Brief

"The Fiscal Impact of Welfare and Medicaid Reforms," February 1997



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