

# ARKANSAS

## Pensionomics 2014:

Measuring the Economic Impact of DB Pension Expenditures

### Key Findings

Benefits paid by state and local pension plans support a significant amount of economic activity in the state of Arkansas.

Pension benefits received by retirees are spent in the local community. This spending ripples through the economy, as one person's spending becomes another person's income, creating a multiplier effect.

In 2012, expenditures stemming from state and local pensions supported...

- 17,395 jobs that paid \$678.8 million in wages and salaries
- \$2.5 billion in total economic output
- \$335.8 million in federal, state, and local tax revenues

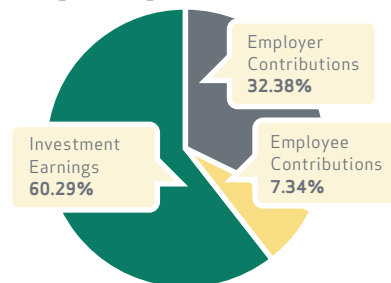
... in the state of Arkansas.

Each dollar paid out in pension benefits supported \$1.75 in total economic activity in Arkansas.

Each dollar "invested" by Arkansas taxpayers in these plans supported \$5.39 in total economic activity in the state.

### Overview

Expenditures made by retirees of state and local government provide a steady economic contribution to Arkansas communities and the state economy. In 2012, 74,360 residents of Arkansas received a total of \$1.4 billion in pension benefits from state and local pension plans.



The average pension benefit received was \$1,532 per month or \$18,390 per year. These modest benefits provide retired teachers, public safety personnel, and others who served the public during their working careers income to meet basic needs in retirement.

Between 1993 and 2012, 32.38% of Arkansas's pension fund receipts came from employer contributions, 7.34% from employee contributions, and 60.29% from investment earnings. Earnings on investments and employee contributions—not taxpayer contributions—have historically made up the bulk of pension fund receipts.

### Impact on Jobs and Incomes

Retiree expenditures stemming from state and local pension plan benefits supported 17,395 jobs in the state. The total income to state residents supported by pension expenditures was \$678.8 million.

To put these employment impacts in perspective, in 2012 Arkansas's unemployment rate was 7.5%. The fact that DB pension expenditures supported 17,395 jobs is significant, as it represents 1.3 percentage points in Arkansas's labor force.

### Economic Impact

State and local pension funds in Arkansas and other states paid a total of \$1.4 billion in benefits to Arkansas residents in 2012. Retirees' expenditures from these benefits supported a total of \$2.5 billion in total economic output in the state, and \$1.3 billion in value added in the state.

\$1.2 billion in direct economic impacts were supported by retirees' initial expenditures. An additional \$835.0 million in indirect impact resulted when these businesses purchased additional goods and services. \$481.0 million in induced impacts occurred when workers employed by businesses as a result of the direct and indirect impacts made expenditures.

Total Economic Impact **\$2.5 billion**

**DIRECT  
IMPACT**  
\$1.2 billion

**INDIRECT  
IMPACT**  
\$835.0 million

**INDUCED  
IMPACT**  
\$481.0 million

## Economic Multipliers

### Taxpayer Contribution Factor\*



**\$1.00**

contributed by taxpayers to Arkansas pensions over 30 years



**\$5.39**

total output

Each \$1 in taxpayer contributions to Arkansas's state and local pension plans supported \$5.39 in total output in the state. This reflects the fact that taxpayer contributions are a minor source of financing for retirement benefits—investment earnings and employee contributions finance the lion's share.

### Pension Benefit Multiplier



**\$1.00**

pension benefits paid to retirees in Arkansas



**\$1.75**

total output

Each \$1 in state and local pension benefits paid to Arkansas residents ultimately supported \$1.75 in total output in the state. This "multiplier" incorporates the direct, indirect, and induced impacts of retiree spending, as it ripples through the state economy.

\*Caution should be used in interpreting these numbers. See the Technical Appendix of the full *Pensionomics* report for details.

## Impact on Tax Revenues

State and local pension payments made to Arkansas residents supported a total of \$335.8 million in revenue to federal, state, and local governments. Taxes paid by retirees and beneficiaries directly out of pension payments totaled \$63.1 million. Taxes attributable to direct, indirect and induced impacts accounted for \$272.7 million in tax revenue.

Federal Tax	\$160.3 million
State/Local Tax	\$175.6 million
<b>Total</b>	<b>\$335.8 million</b>

## Economic Impacts by Industry Sector

The economic impact of state and local pension benefits was broadly felt across various industry sectors in Arkansas. The ten industry sectors with the largest employment impacts are presented in the table below.

Industry	Employment Impact (# Jobs)	Labor Income Impact	Value Added Impact	Output Impact
Food Services and Drinking Places	1,461	\$27,005,171	\$41,062,341	\$77,426,285
Real Estate Establishments	935	\$9,883,001	\$87,229,406	\$113,353,070
Private Hospitals	835	\$45,952,846	\$52,539,135	\$101,050,738
Physicians, Dentists, and other Health Practitioners	800	\$60,770,348	\$62,475,003	\$95,064,712
Nursing and Residential Care Facilities	568	\$17,620,724	\$20,616,665	\$31,064,597
Wholesale Trade Businesses	469	\$33,353,694	\$69,230,164	\$102,951,525
Retail Stores - General Merchandise	420	\$11,292,791	\$19,796,818	\$24,565,497
Retail Stores - Food and Beverage	358	\$12,059,559	\$17,197,845	\$23,110,322
Private Household Operations	291	\$1,917,669	\$1,917,669	\$1,917,669
Individual and Family Services	287	\$6,767,294	\$6,544,421	\$10,116,212

Industry totals include the first round of impacts from pension payments to state residents, and do not account for recaptured "leakage" to or from other states.