

MINNESOTA

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 Minnesota.

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...

- 46,581 jobs that paid \$2.2 billion in wages and salaries
- \$7.0 billion in total economic output
- \$1.2 billion in federal, state, and local tax revenues

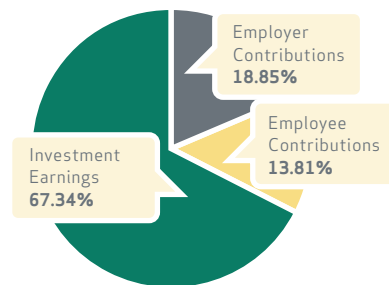
... in the state of Minnesota.

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

Each dollar "invested" by Minnesota taxpayers in these plans supported \$9.28 in total economic activity in the state.

Overview

Expenditures made by retirees of state and local government provide a steady economic contribution to Minnesota communities and the state economy. In 2012, 187,099 residents of Minnesota received a total of \$3.8 billion in pension benefits from state and local pension plans.



The average pension benefit received was \$1,696 per month or \$20,353 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, 18.85% of Minnesota's pension fund receipts came from employer contributions, 13.81% from employee contributions, and 67.34% 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 46,581 jobs in the state. The total income to state residents supported by pension expenditures was \$2.2 billion.

To put these employment impacts in perspective, in 2012 Minnesota's unemployment rate was 5.6%. The fact that DB pension expenditures supported 46,581 jobs is significant, as it represents 1.6 percentage points in Minnesota's labor force.

Economic Impact

State and local pension funds in Minnesota and other states paid a total of \$3.8 billion in benefits to Minnesota residents in 2012. Retirees' expenditures from these benefits supported a total of \$7.0 billion in total economic output in the state, and \$4.0 billion in value added in the state.

\$3.2 billion in direct economic impacts were supported by retirees' initial expenditures. An additional \$2.1 billion in indirect impact resulted when these businesses purchased additional goods and services. \$1.7 billion in induced impacts occurred when workers employed by businesses as a result of the direct and indirect impacts made expenditures.

————— Total Economic Impact **\$7.0 billion** —————

**DIRECT
IMPACT
\$3.2 billion**

**INDIRECT
IMPACT
\$2.1 billion**

**INDUCED
IMPACT
\$1.7 billion**

Economic Multipliers

Taxpayer Contribution Factor*



\$1.00

contributed by taxpayers to Minnesota pensions over 30 years



\$9.28
total output

Each \$1 in taxpayer contributions to Minnesota's state and local pension plans supported \$9.28 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 Minnesota



\$1.75
total output

Each \$1 in state and local pension benefits paid to Minnesota 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 Minnesota residents supported a total of \$1.2 billion in revenue to federal, state, and local governments. Taxes paid by retirees and beneficiaries directly out of pension payments totaled \$280.1 million. Taxes attributable to direct, indirect and induced impacts accounted for \$887.2 million in tax revenue.

| | |
|-----------------|----------------------|
| Federal Tax | \$539.9 million |
| State/Local Tax | \$627.4 million |
| Total | \$1.2 billion |

Economic Impacts by Industry Sector

The economic impact of state and local pension benefits was broadly felt across various industry sectors in Minnesota. 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 | 3,976 | \$80,027,392 | \$123,434,957 | \$222,392,361 |
| Real Estate Establishments | 2,154 | \$42,854,060 | \$314,858,910 | \$375,035,666 |
| Private Hospitals | 2,129 | \$154,220,238 | \$174,273,543 | \$297,989,452 |
| Physicians, Dentists, and other Health Practitioners | 1,997 | \$183,418,795 | \$187,812,172 | \$269,136,274 |
| Nursing and Residential Care Facilities | 1,652 | \$47,419,829 | \$58,259,428 | \$88,651,480 |
| Wholesale Trade Businesses | 1,429 | \$129,862,255 | \$203,587,503 | \$306,449,199 |
| Retail Stores - General Merchandise | 1,288 | \$33,806,332 | \$54,511,179 | \$69,149,000 |
| Retail Stores - Food and Beverage | 1,249 | \$33,110,774 | \$44,375,834 | \$65,001,462 |
| Securities, Commodity Contracts, and Investments | 860 | \$51,641,102 | \$44,981,650 | \$138,948,324 |
| Individual and Family Services | 834 | \$18,459,310 | \$18,280,702 | \$28,653,386 |

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.