

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 Rhode Island.

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...

- 12,726 jobs that paid \$602.8 million in wages and salaries
- \$1.8 billion in total economic output
- \$314.4 million in federal, state, and local tax revenues

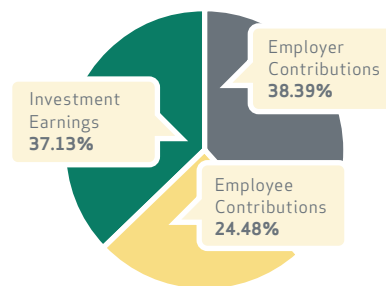
... in the state of Rhode Island.

Each dollar paid out in pension benefits supported \$1.61 in total economic activity in Rhode Island.

Each dollar "invested" by Rhode Island taxpayers in these plans supported \$4.19 in total economic activity in the state.

Overview

Expenditures made by retirees of state and local government provide a steady economic contribution to Rhode Island communities and the state economy. In 2012, 35,508 residents of Rhode Island received a total of \$1.1 billion in pension benefits from state and local pension plans.



The average pension benefit received was \$2,638 per month or \$31,658 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, 38.39% of Rhode Island's pension fund receipts came from employer contributions, 24.48% from employee contributions, and 37.13% 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 12,726 jobs in the state. The total income to state residents supported by pension expenditures was \$602.8 million.

To put these employment impacts in perspective, in 2012 Rhode Island's unemployment rate was 10.3%. The fact that DB pension expenditures supported 12,726 jobs is significant, as it represents 2.3 percentage points in Rhode Island's labor force.

Economic Impact

State and local pension funds in Rhode Island and other states paid a total of \$1.1 billion in benefits to Rhode Island residents in 2012. Retirees' expenditures from these benefits supported a total of \$1.8 billion in total economic output in the state, and \$1.0 billion in value added in the state.

\$951.1 million in direct economic impacts were supported by retirees' initial expenditures. An additional \$461.3 million in indirect impact resulted when these businesses purchased additional goods and services. \$392.5 million in induced impacts occurred when workers employed by businesses as a result of the direct and indirect impacts made expenditures.

————— Total Economic Impact **\$1.8 billion** —————

**DIRECT
IMPACT**
\$951.1 million

**INDIRECT
IMPACT**
\$461.3 million

**INDUCED
IMPACT**
\$392.5 million

Economic Multipliers

Taxpayer Contribution Factor*



\$1.00

contributed by taxpayers to Rhode Island pensions over 30 years



\$4.19
total output

Each \$1 in taxpayer contributions to Rhode Island's state and local pension plans supported \$4.19 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 Rhode Island



\$1.61
total output

Each \$1 in state and local pension benefits paid to Rhode Island residents ultimately supported \$1.61 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 Rhode Island residents supported a total of \$314.4 million in revenue to federal, state, and local governments. Taxes paid by retirees and beneficiaries directly out of pension payments totaled \$68.0 million. Taxes attributable to direct, indirect and induced impacts accounted for \$246.4 million in tax revenue.

Federal Tax	\$139.8 million
State/Local Tax	\$174.6 million
Total	\$314.4 million

Economic Impacts by Industry Sector

The economic impact of state and local pension benefits was broadly felt across various industry sectors in Rhode Island. 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	1,419	\$32,353,455	\$46,747,183	\$82,065,817
Maintenance/Repair of Nonresidential Structures	1,376	\$84,726,382	\$107,081,283	\$212,535,103
Real Estate Establishments	799	\$10,423,359	\$120,307,898	\$142,632,889
Private Hospitals	787	\$57,473,549	\$63,824,646	\$109,575,656
Physicians, Dentists, and other Health Practitioners	739	\$56,984,885	\$58,926,368	\$89,008,350
Wholesale Trade Businesses	546	\$44,715,063	\$76,471,807	\$115,804,758
Retail Stores - Food and Beverage	473	\$13,319,899	\$17,040,122	\$24,850,100
Nursing and Residential Care Facilities	465	\$17,450,986	\$21,295,460	\$29,853,994
Management of Companies and Enterprises	443	\$59,695,642	\$69,352,738	\$103,065,952
Retail Stores - General Merchandise	372	\$12,056,689	\$17,955,255	\$22,180,890

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.