

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 South Carolina.

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...

- 34,927 jobs that paid \$1.3 billion in wages and salaries
- \$4.3 billion in total economic output
- \$585.4 million in federal, state, and local tax revenues

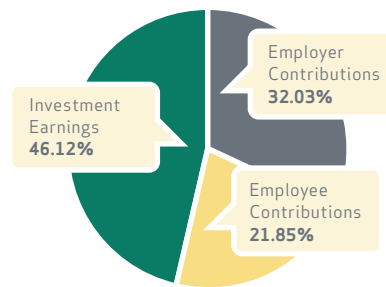
... in the state of South Carolina.

Each dollar paid out in pension benefits supported \$1.64 in total economic activity in South Carolina.

Each dollar "invested" by South Carolina taxpayers in these plans supported \$5.12 in total economic activity in the state.

Overview

Expenditures made by retirees of state and local government provide a steady economic contribution to South Carolina communities and the state economy. In 2012, 132,301 residents of South Carolina received a total of \$2.6 billion in pension benefits from state and local pension plans.



The average pension benefit received was \$1,663 per month or \$19,957 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, 32.03% of South Carolina's pension fund receipts came from employer contributions, 21.85% from employee contributions, and 46.12% from investment earnings. Earnings on investments and employee contributions—not taxpayer contributions—have historically made up the bulk of pension fund receipts.

Between 1993 and 2012, 32.03% of South Carolina's pension fund receipts came from

Impact on Jobs and Incomes

Retiree expenditures stemming from state and local pension plan benefits supported 34,927 jobs in the state. The total income to state residents supported by pension expenditures was \$1.3 billion.

To put these employment impacts in perspective, in 2012 South Carolina's unemployment rate was 9.0%. The fact that DB pension expenditures supported 34,927 jobs is significant, as it represents 1.6 percentage points in South Carolina's labor force.

Economic Impact

State and local pension funds in South Carolina and other states paid a total of \$2.6 billion in benefits to South Carolina residents in 2012. Retirees' expenditures from these benefits supported a total of \$4.3 billion in total economic output in the state, and \$2.3 billion in value added in the state.

\$2.2 billion in direct economic impacts were supported by retirees' initial expenditures. An additional \$1.3 billion in indirect impact resulted when these businesses purchased additional goods and services. \$850.2 million in induced impacts occurred when workers employed by businesses as a result of the direct and indirect impacts made expenditures.

————— Total Economic Impact **\$4.3 billion** —————

**DIRECT
IMPACT**
\$2.2 billion

**INDIRECT
IMPACT**
\$1.3 billion

**INDUCED
IMPACT**
\$850.2 million

Economic Multipliers

Taxpayer Contribution Factor*



\$1.00

contributed by taxpayers to South Carolina pensions over 30 years



\$5.12

total output

Each \$1 in taxpayer contributions to South Carolina's state and local pension plans supported \$5.12 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 South Carolina



\$1.64

total output

Each \$1 in state and local pension benefits paid to South Carolina residents ultimately supported \$1.64 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 South Carolina residents supported a total of \$585.4 million in revenue to federal, state, and local governments. Taxes paid by retirees and beneficiaries directly out of pension payments totaled \$87.5 million. Taxes attributable to direct, indirect and induced impacts accounted for \$497.9 million in tax revenue.

| | |
|-----------------|------------------------|
| Federal Tax | \$296.3 million |
| State/Local Tax | \$289.1 million |
| Total | \$585.4 million |

Economic Impacts by Industry Sector

The economic impact of state and local pension benefits was broadly felt across various industry sectors in South Carolina. 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 | 2,952 | \$60,987,923 | \$86,825,611 | \$160,303,101 |
| Private Household Operations | 2,656 | \$3,857,826 | \$3,857,826 | \$3,857,826 |
| Real Estate Establishments | 2,146 | \$26,838,567 | \$181,653,266 | \$241,607,382 |
| Physicians, Dentists, and other Health Practitioners | 1,522 | \$119,168,485 | \$123,858,671 | \$185,810,282 |
| Nursing and Residential Care Facilities | 1,024 | \$34,174,666 | \$41,702,207 | \$60,543,403 |
| Private Hospitals | 997 | \$67,623,895 | \$76,586,890 | \$134,533,022 |
| Wholesale Trade Businesses | 966 | \$67,837,598 | \$127,335,787 | \$196,865,661 |
| Retail Stores - General Merchandise | 884 | \$24,008,878 | \$38,772,162 | \$48,809,253 |
| Retail Stores - Food and Beverage | 856 | \$25,209,845 | \$33,672,588 | \$47,810,592 |
| Employment Services | 600 | \$17,403,346 | \$19,359,228 | \$23,150,692 |

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.