

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 Dakota.

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...

- 6,450 jobs that paid \$260.5 million in wages and salaries
- \$887.1 million in total economic output
- \$95.2 million in federal, state, and local tax revenues

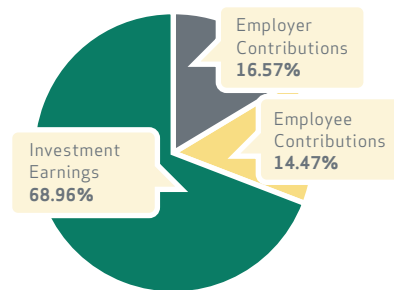
... in the state of South Dakota.

Each dollar paid out in pension benefits supported \$1.95 in total economic activity in South Dakota.

Each dollar "invested" by South Dakota taxpayers in these plans supported \$11.77 in total economic activity in the state.

Overview

Expenditures made by retirees of state and local government provide a steady economic contribution to South Dakota communities and the state economy. In 2012, 26,212 residents of South Dakota received a total of \$456.1 million in pension benefits from state and local pension plans.



The average pension benefit received was \$1,450 per month or \$17,400 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, 16.57% of South Dakota's pension fund receipts came from employer contributions, 14.47% from employee contributions, and 68.96% 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 6,450 jobs in the state. The total income to state residents supported by pension expenditures was \$260.5 million.

To put these employment impacts in perspective, in 2012 South Dakota's unemployment rate was 4.2%. The fact that DB pension expenditures supported 6,450 jobs is significant, as it represents 1.4 percentage points in South Dakota's labor force.

Economic Impact

State and local pension funds in South Dakota and other states paid a total of \$456.1 million in benefits to South Dakota residents in 2012. Retirees' expenditures from these benefits supported a total of \$887.1 million in total economic output in the state, and \$464.7 million in value added in the state.

\$410.4 million in direct economic impacts were supported by retirees' initial expenditures. An additional \$298.7 million in indirect impact resulted when these businesses purchased additional goods and services. \$178.1 million in induced impacts occurred when workers employed by businesses as a result of the direct and indirect impacts made expenditures.

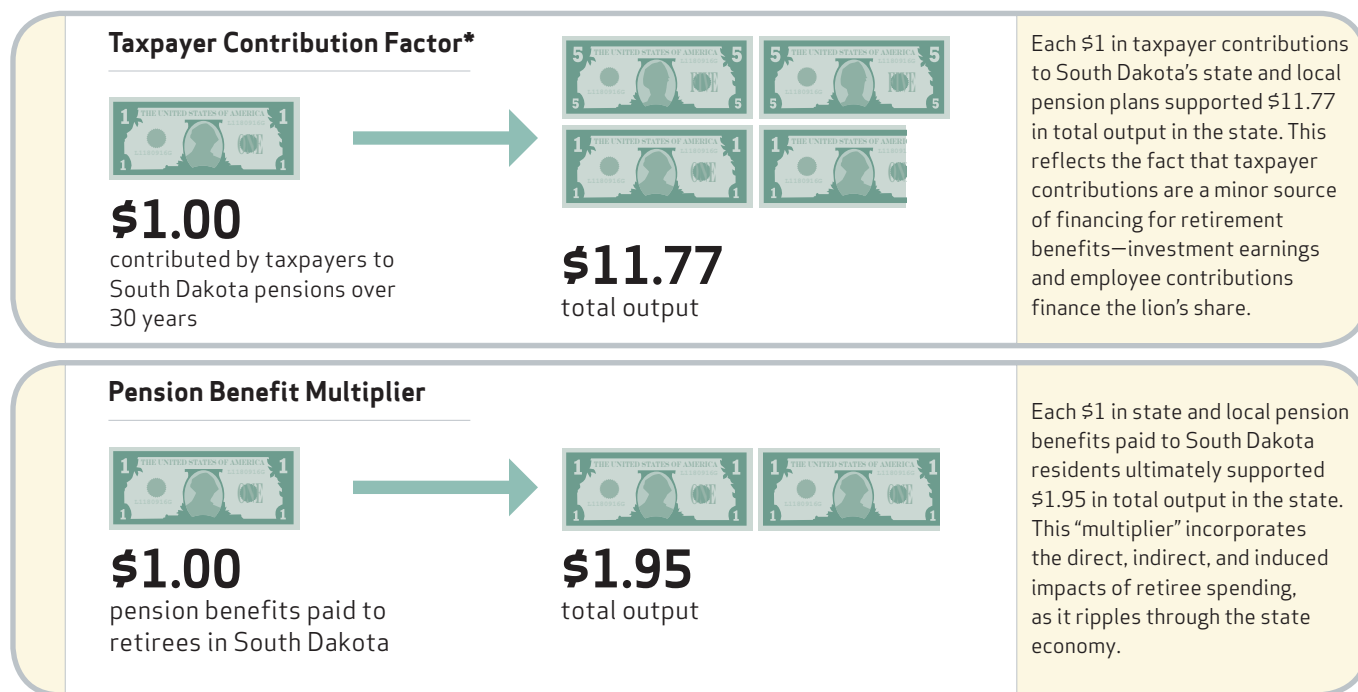
————— Total Economic Impact **\$887.1 million** —————

**DIRECT
IMPACT**
\$410.4 million

**INDIRECT
IMPACT**
\$298.7 million

**INDUCED
IMPACT**
\$178.1 million

Economic Multipliers



*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 Dakota residents supported a total of \$95.2 million in revenue to federal, state, and local governments. Taxes paid by retirees and beneficiaries directly out of pension payments totaled \$3.6 million. Taxes attributable to direct, indirect and induced impacts accounted for \$91.5 million in tax revenue.

Federal Tax	\$57.8 million
State/Local Tax	\$37.4 million
Total	\$95.2 million

Economic Impacts by Industry Sector

The economic impact of state and local pension benefits was broadly felt across various industry sectors in South Dakota. 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	551	\$9,333,201	\$13,396,221	\$27,116,041
Private Hospitals	328	\$21,021,008	\$23,272,069	\$42,354,185
Real Estate Establishments	310	\$3,665,704	\$31,088,511	\$39,757,686
Physicians, Dentists, and other Health Practitioners	245	\$22,649,083	\$23,187,813	\$33,143,866
Nursing and Residential Care Facilities	205	\$6,048,437	\$6,850,623	\$10,628,060
Wholesale Trade Businesses	190	\$12,737,145	\$23,767,190	\$37,473,146
Retail Stores - Food and Beverage	178	\$3,676,346	\$5,107,315	\$8,043,581
Retail Stores - General Merchandise	150	\$3,893,214	\$6,657,924	\$8,364,486
Private Household Operations	114	\$618,332	\$618,332	\$618,332
Civic, Social, Professional, and Similar Organizations	104	\$2,536,067	\$1,984,171	\$3,796,584

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.