

## 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 West Virginia.

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...

- 9,637 jobs that paid \$380.6 million in wages and salaries
- \$1.3 billion in total economic output
- \$225.1 million in federal, state, and local tax revenues

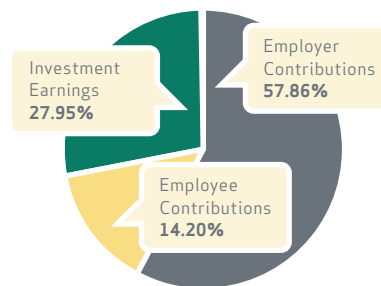
... in the state of West Virginia.

Each dollar paid out in pension benefits supported \$1.00 in total economic activity in West Virginia.

Each dollar "invested" by West Virginia taxpayers in these plans supported \$1.73 in total economic activity in the state.

### Overview

Expenditures made by retirees of state and local government provide a steady economic contribution to West Virginia communities and the state economy. In 2012, 60,696 residents of West Virginia received a total of \$1.1 billion in pension benefits from state and local pension plans.



The average pension benefit received was \$1,463 per month or \$17,560 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, 57.86% of West Virginia's pension fund receipts came from

employer contributions, 14.20% from employee contributions, and 27.95% 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 9,637 jobs in the state. The total income to state residents supported by pension expenditures was \$380.6 million.

To put these employment impacts in perspective, in 2012 West Virginia's unemployment rate was 7.2%. The fact that DB pension expenditures supported 9,637 jobs is significant, as it represents 1.2 percentage points in West Virginia's labor force.

### Economic Impact

State and local pension funds in West Virginia and other states paid a total of \$1.1 billion in benefits to West Virginia residents in 2012. Retirees' expenditures from these benefits supported a total of \$1.3 billion in total economic output in the state, and \$693.9 million in value added in the state.

\$554.9 million in direct economic impacts were supported by retirees' initial expenditures. An additional \$484.6 million in indirect impact resulted when these businesses purchased additional goods and services. \$258.7 million in induced impacts occurred when workers employed by businesses as a result of the direct and indirect impacts made expenditures.

Total Economic Impact **\$1.3 billion**

**DIRECT  
IMPACT**  
\$554.9 million

**INDIRECT  
IMPACT**  
\$484.6 million

**INDUCED  
IMPACT**  
\$258.7 million

## Economic Multipliers

### Taxpayer Contribution Factor\*



**\$1.00**

contributed by taxpayers to West Virginia pensions over 30 years



**\$1.73**

total output

Each \$1 in taxpayer contributions to West Virginia's state and local pension plans supported \$1.73 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 West Virginia



**\$1.00**

total output

Each \$1 in state and local pension benefits paid to West Virginia residents ultimately supported \$1.00 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 West Virginia residents supported a total of \$225.1 million in revenue to federal, state, and local governments. Taxes paid by retirees and beneficiaries directly out of pension payments totaled \$59.3 million. Taxes attributable to direct, indirect and induced impacts accounted for \$165.8 million in tax revenue.

Federal Tax	\$92.1 million
State/Local Tax	\$133.0 million
<b>Total</b>	<b>\$225.1 million</b>

## Economic Impacts by Industry Sector

The economic impact of state and local pension benefits was broadly felt across various industry sectors in West Virginia. 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	888	\$16,809,359	\$24,355,079	\$46,454,565
Private Hospitals	574	\$36,789,163	\$39,973,746	\$73,307,752
Physicians, Dentists, and other Health Practitioners	486	\$36,515,889	\$37,487,849	\$57,266,657
Nursing and Residential Care Facilities	334	\$11,155,042	\$12,497,944	\$18,633,524
Real Estate Establishments	310	\$5,206,331	\$38,510,728	\$47,175,055
Retail Stores - General Merchandise	284	\$7,448,688	\$12,481,820	\$15,707,386
Retail Stores - Food and Beverage	227	\$5,979,995	\$8,361,657	\$12,106,246
Wholesale Trade Businesses	224	\$13,669,719	\$26,442,959	\$42,596,888
Private Household Operations	211	\$1,031,626	\$1,031,626	\$1,031,626
Individual and Family Services	197	\$3,750,900	\$3,725,655	\$6,176,826

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.