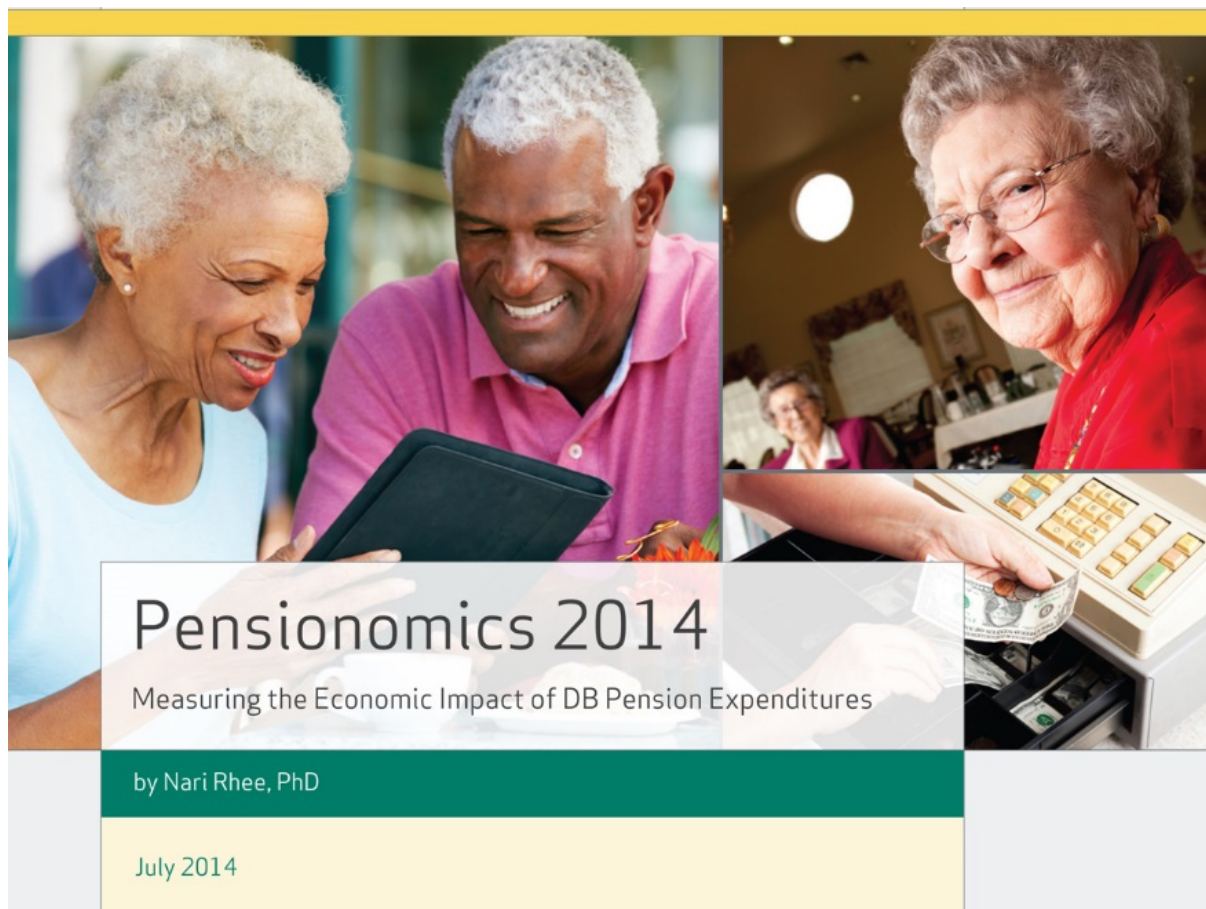


# ***Pensionomics 2014: Measuring the Economic Impact of DB Pension Expenditures***



**Webinar to Review Findings  
July 30, 2014**



**NATIONAL INSTITUTE ON  
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# Agenda

- Welcome and Introductions
- Report Overview
- Detailed Findings
- Retiree and Business Profile
- Q&A



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# Speakers



- Diane Oakley
  - Executive Director, NIRS



- Nari Rhee, PhD
  - Report Author
  - Manager of Research, NIRS



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# Why We Did This Study

- Measure the economic “ripple effect” of DB pension plans.
- DB benefits can act as an economic stabilizer.
- Retirees with a reliable pension can maintain spending through economic ups and downs.
- Quantify the economic impact of pension spending on the U.S. economy.



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# *Pensionomics 2014: What We Found*

- In 2012, expenditures from public and private pension benefits supported...
  - **\$943 billion** in economic output nationwide
  - **6.2 million jobs** that paid **\$315 billion** in income
  - **\$555 billion** in value added nationally
  - **\$135 billion** in federal, state, and local tax revenue



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# What We Found

What is the total economic impact of each dollar paid out in pension benefits?

## Pension Expenditure Multiplier



**\$1.00**

pension benefits paid to  
retirees with DB pension income



**\$1.98**

total output



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# What We Found

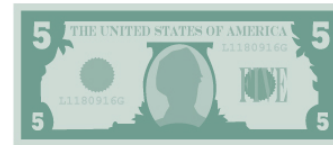
What is the “return” on each dollar taxpayers “invest” in state and local pension plans?

## Taxpayer Investment Factor\*



**\$1.00**

contributed by taxpayers to  
state and local pensions over 30 years



**\$8.06**

total output



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# Overview of Public and Private Pension Payments in the U.S.

## Public and Private Sector Pension Benefits, 2012

	State and Local	Federal	Private Sector	Total*
Beneficiaries	9.0 million	2.5 million	12.7 million	24.2 million
Average Benefit	\$25,354	\$28,990	\$13,818	\$19,678**
Total Benefits	\$228.5 billion	\$70.7 billion	\$175.6 billion	\$476.8 billion

Note: Author's analysis of the Annual Survey of Public Pensions, Current Population Survey Annual Social and Economic Supplement, and annuity roll data from the U.S. Office of Personnel Management.

\*Totals may not add up exactly due to rounding.

\*\* Total average benefit represents a weighted average of public and private sector benefits.



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# Pension Plans' Economic Impacts

- Pension plans can support economic activity through several channels, for example...
  - **Benefit channel** – retirees' expenditures create incomes for others in the economy
  - **Investment channel** – the investment of pension assets provides capital to businesses to develop products, invest in new technologies, create jobs.
- This study focuses on the benefit channel



# Methodology

- **Began with benefit payment data** from the Census Bureau on state and local plans, the CPS for private plans, and OPM for federal plans.
- **Estimated taxes paid out of benefits** using data from CBO, BEA, and NCSL.
- **Adjusted benefit payment data** to account for migration of retirees from one state to another.
- **Estimated the economic and tax impacts of retiree expenditures**, using IMPLAN input-output modeling software and data package.



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# What is IMPLAN?

- IMPLAN is used to estimate impacts on: jobs, income, value added, total output, and tax revenue.
- IMPLAN is an input-output modeling software and data package developed for a USDA Forest Service project, now used for many types of analysis.
- It represents relationships among various sectors in the economy as a matrix. It estimates how an initial event reverberates through the economy.



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# Types of Economic Impact

## **DIRECT**

Businesses gain revenue from first round spending – in this case, consumer spending, e.g., car purchase at auto dealership

## **INDIRECT**

\$ flows up the supply chain, e.g, auto mfrs, parts mfrs, and goods transport

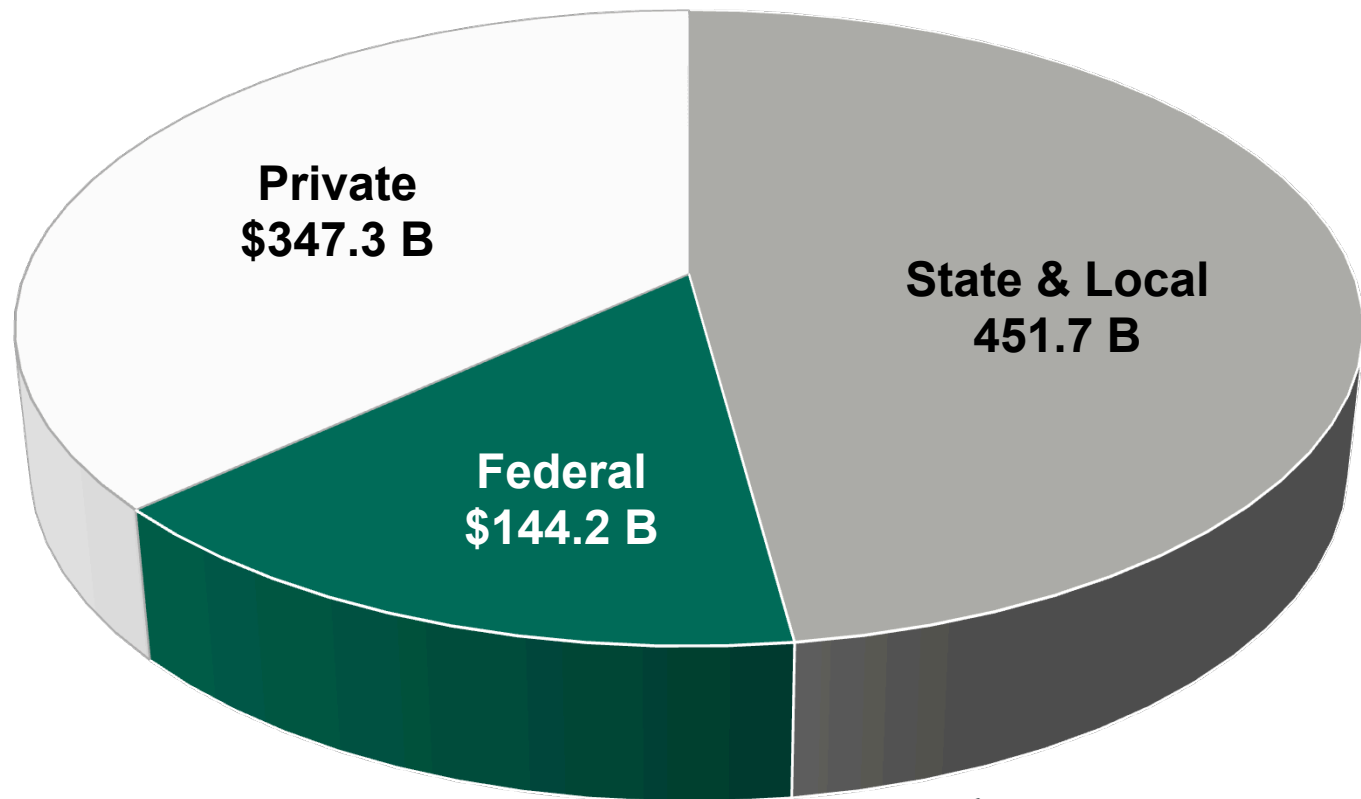
## **INDUCED**

Owners and employees of affected businesses spend their earnings



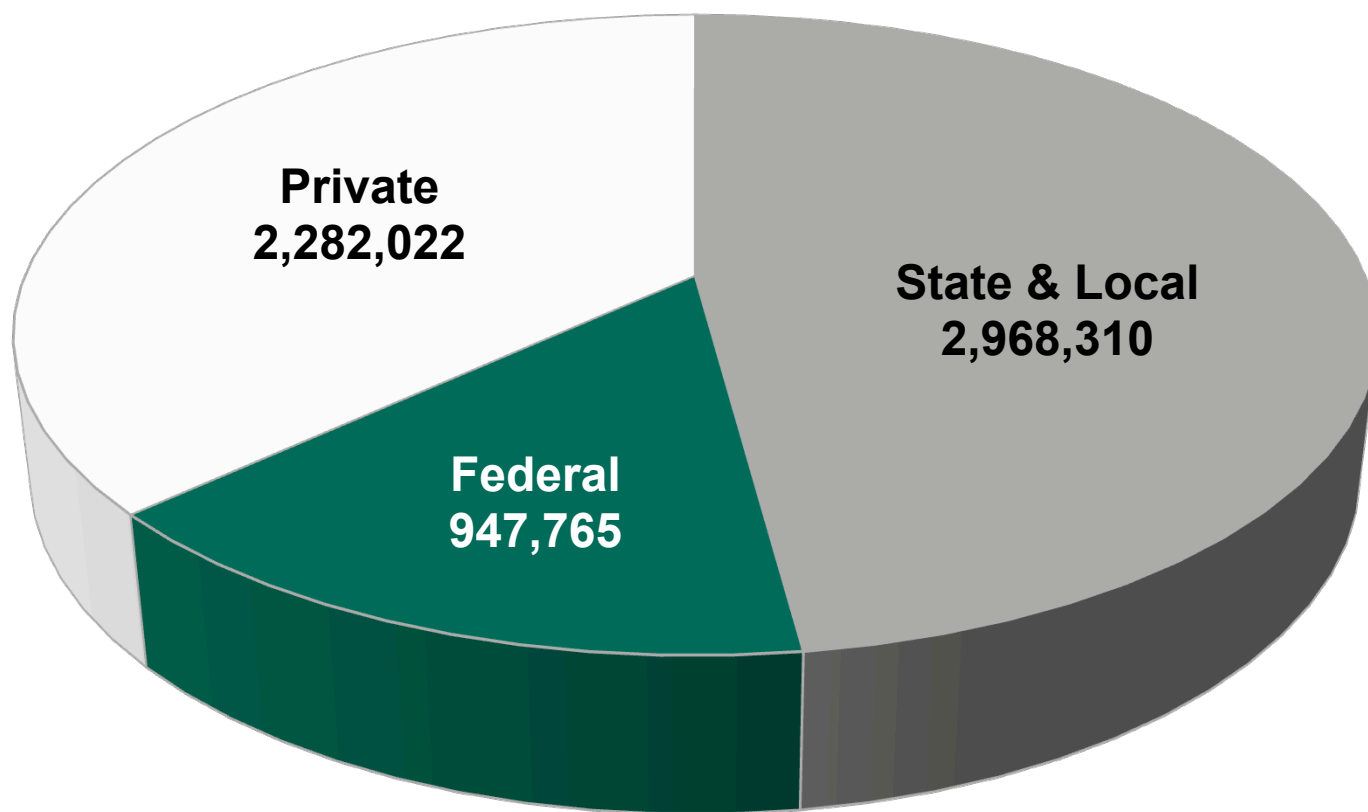
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# Results: DB Pensions Support \$943 Billion in Economic Activity



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# Results: DB Pensions Support 6.2 Million American Jobs



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# Results: DB Pensions Support \$307 Billion in Labor Income

	State and Local Pensions	Federal Pensions	Private Pensions	Total Labor Income Supported*
Direct Impact	\$65.1 billion	\$20.8 billion	\$50.0 billion	\$135.9 billion
Indirect Impact	36.5 billion	11.7 billion	28.1 billion	76.2 billion
Induced Impact	45.4 billion	141.5 billion	34.9 billion	94.9 billion
<b>Total Labor Income Impact*</b>	<b>\$147.0 billion</b>	<b>\$46.9 billion</b>	<b>\$138.2 billion</b>	<b>\$306.9 billion</b>

\*Totals may not add up exactly due to rounding.



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# Results: DB Pensions Support \$555 Billion in Value Added

	State and Local Pensions	Federal Pensions	Private Pensions	Value Added Supported*
Direct Impact	\$122.5 billion	\$39.1 billion	\$94.1 billion	\$255.7 billion
Indirect Impact	61.9 billion	19.8 billion	47.6 billion	129.4 billion
Induced Impact	81.2 billion	25.9 billion	62.4 billion	169.6 billion
<b>Total Value Added Impact*</b>	<b>\$265.6 billion</b>	<b>\$84.8 billion</b>	<b>\$204.2 billion</b>	<b>\$554.6 billion</b>

\*Totals may not add up exactly due to rounding.



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# Results:

## Economic Impacts by Industry

- Industries with most jobs supported:
  - Private hospitals/offices of physicians, dentists, etc  
592,000 jobs  
\$60.1 billion in output
  - Food service and drinking places  
568,000 jobs  
\$24.3 billion in output
  - Real estate establishments  
354,000 jobs  
\$49.1 billion in output



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# Results: DB Pensions Support \$135 Billion in Tax Revenue

Table 6. **DB Pensions Support \$72.5 Billion in Federal Tax Revenue**

	State and Local Pensions	Federal Pensions	Private Pensions	Federal Tax Revenue*
Taxes Paid by Beneficiaries on Benefits	\$1.8 billion	\$552.1 million	\$1.4 billion	\$3.8 billion
Tax Revenue Resulting from Retiree Expenditures	32.9 billion	10.5 billion	25.3 billion	68.7 billion
<b>Total Federal Tax Revenue Impact*</b>	<b>\$34.7 billion</b>	<b>\$11.1 billion</b>	<b>\$26.7 billion</b>	<b>\$72.5 billion</b>

Table 7. **DB Pensions Support \$62.6 Billion in State and Local Tax Revenue**

	State and Local Pensions	Federal Pensions	Private Pensions	Total State and Local Tax Revenue*
Taxes Paid by Beneficiaries on Benefits	\$5.3 billion	\$1.4 billion	\$4.0 billion	\$10.8 billion
Tax Revenue Resulting from Retiree Expenditures	24.8 billion	7.9 billion	19.1 billion	51.8 billion
<b>Total State and Local Tax Revenue Impact*</b>	<b>\$30.1 billion</b>	<b>\$9.3 billion</b>	<b>\$23.1 billion</b>	<b>\$62.6 billion</b>



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# Results: Pension Expenditure Multiplier

What is the total economic impact of each dollar paid out in pension benefits?

## Pension Expenditure Multiplier



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pension benefits paid to  
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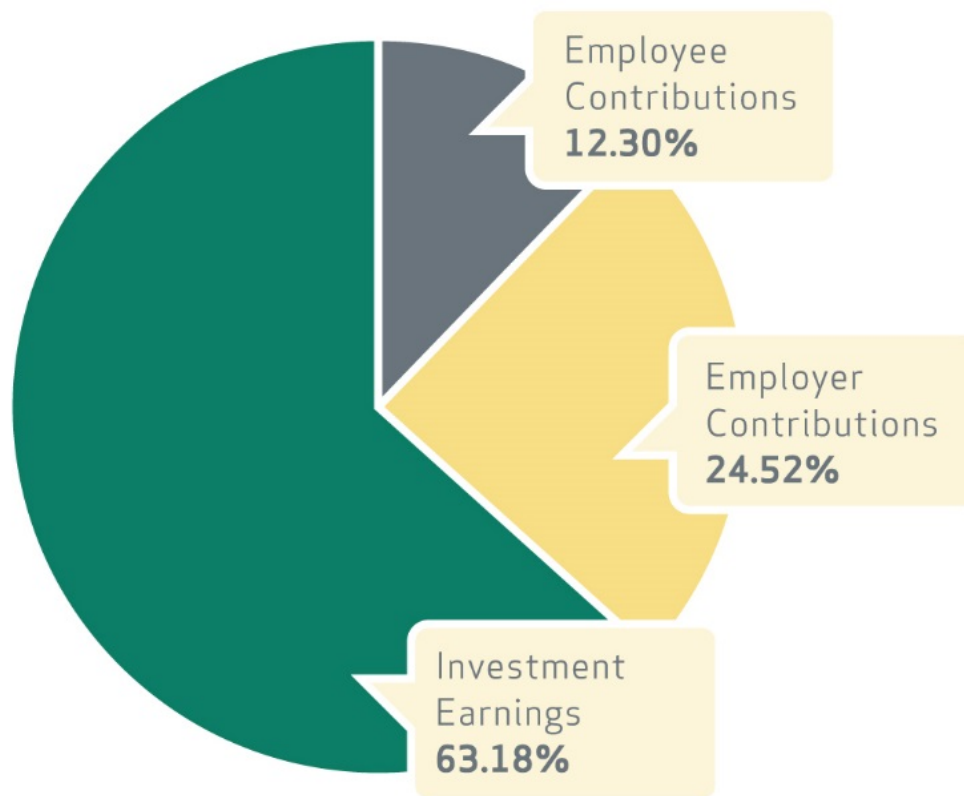
**\$1.98**

total output



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# Financing of State and Local Pension Plans, 1993-2012



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# Results: Taxpayer Investment Factor

What is the “return” on each dollar taxpayers “invest” in state and local pension plans?

## Taxpayer Investment Factor\*



**\$1.00**

contributed by taxpayers to  
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**\$8.06**

total output



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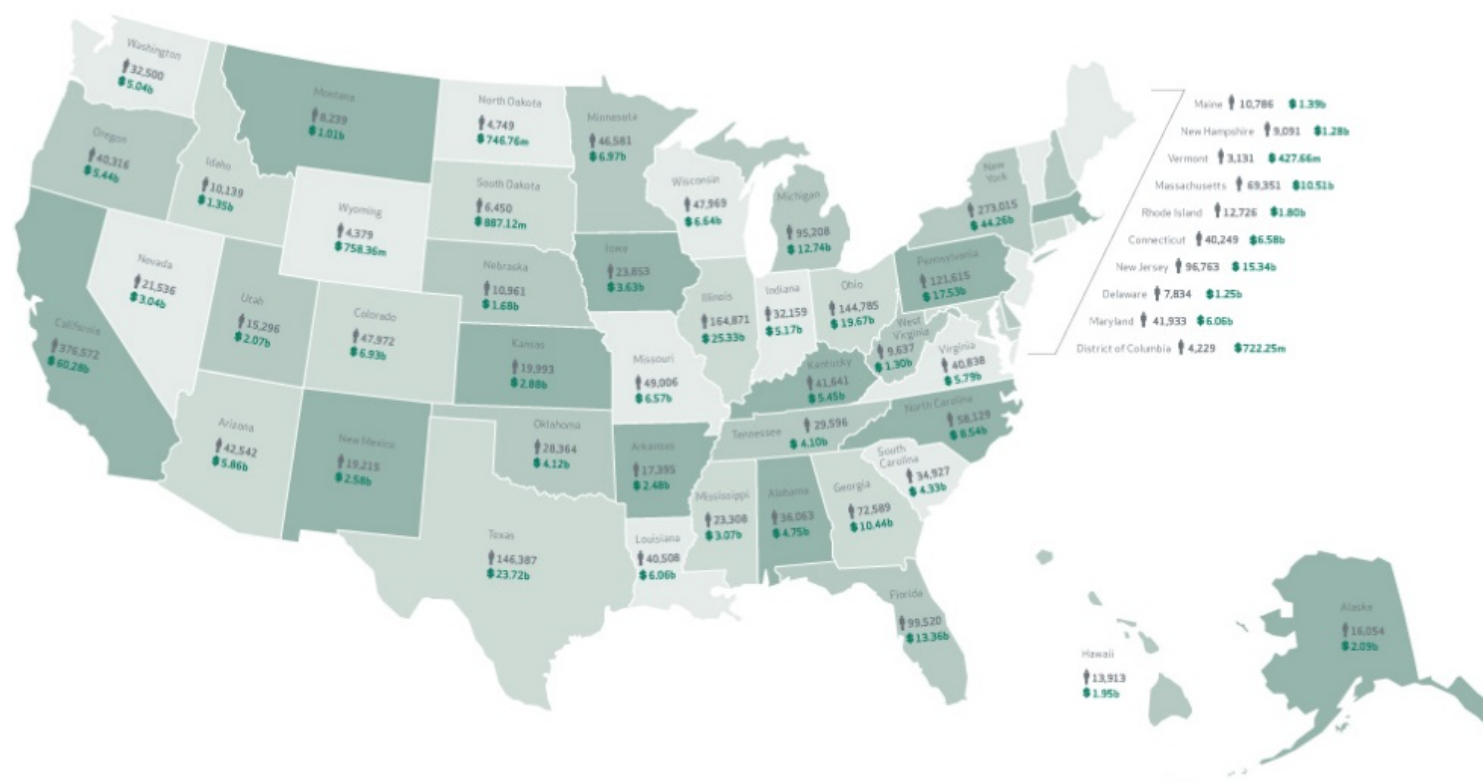
# State-by-State Analysis of Impact from State & Local Pensions

- MRIO to capture *in-state* impacts and some *cross-state* impacts
- In-state: Effects of local spending by residents from pension benefits, including recapture of “leaked” economic benefits when they circulate back to the original state
- Cross-state: Benefits that leak between states through inter-state trade (i.e., one state’s loss is another’s gain)



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# Results: Economic Impacts By State



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# State Fact Sheets available at [www.nirsonline.org](http://www.nirsonline.org)

## ALABAMA

### Key Findings

Benefits paid by state and local pension plans support a significant amount of economic activity in the state of Alabama.

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...

- 36,063 jobs that paid \$1.4 billion in wages and salaries
- \$4.8 billion in total economic output
- \$559.2 million in federal, state, and local tax revenues

... in the state of Alabama.

Each dollar paid out in pension benefits supported \$1.63 in total economic activity in Alabama.

Each dollar "invested" by Alabama taxpayers in these plans supported \$7.79 in total economic activity in the state.

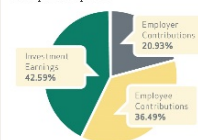
### Pensionomics 2014:

Measuring the Economic Impact of DB Pension Expenditures



### Overview

Expenditures made by retirees of state and local government provide a steady economic contribution to Alabama communities and the state economy. In 2012, 115,224 residents of Alabama received a total of \$2.9 billion in pension benefits from state and local pension plans.



The average pension benefit received was \$2,114 per month or \$25,367 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, 20.93% of Alabama's pension fund receipts came from employer contributions, 36.49% from employee contributions, and 42.59% 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 36,063 jobs in the state. The total income to state residents supported by pension expenditures was \$1.4 billion.

To put these employment impacts in perspective, in 2012 Alabama's unemployment rate was 7.1%. The fact that DB pension expenditures supported 36,063 jobs is significant, as it represents 1.7 percentage points in Alabama's labor force.

### Economic Impact

State and local pension funds in Alabama and other states paid a total of \$2.9 billion in benefits to Alabama residents in 2012. Retirees' expenditures from these benefits supported a total of \$4.8 billion in total economic output in the state, and \$2.6 billion in value added in the state.

\$2.6 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. \$868.7 million in induced impacts occurred when workers employed by businesses as a result of the direct and indirect impacts made expenditures.

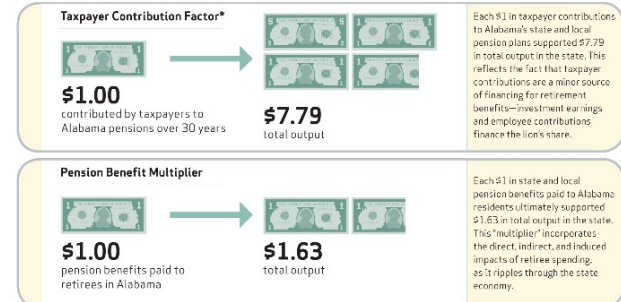


\*Total may not add up due to rounding. For data and methodology, see Rhee, N., 2014, *Pensionomics 2014: Measuring the Economic Impact of DB Pension Expenditures*, National Institute on Retirement Security, Washington, DC, [www.nirsonline.org](http://www.nirsonline.org). Results not directly comparable to previous *Pensionomics* due to methodological refinements.

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Pensionomics 2014: Measuring the Economic Impact of DB Pension Expenditures

## ALABAMA

### 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 Alabama residents supported a total of \$559.2 million in revenue to federal, state, and local governments. Taxes paid by retirees and beneficiaries directly out of pension payments totaled \$23.4 million. Taxes attributable to direct, indirect and induced impacts accounted for \$535.8 million in tax revenue.

Federal Tax	\$328.8 million
State/Local Tax	\$230.4 million
<b>Total</b>	<b>\$559.2 million</b>

### Economic Impacts by Industry Sector

The economic impact of state and local pension benefits was broadly felt across various industry sectors in Alabama. 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	3,268	\$63,403,944	\$95,331,197	\$176,677,356
Rew. Estate Establishments	2,149	\$29,965,721	\$203,562,722	\$263,609,305
Physicians, Dentists, and other Health Practitioners	1,684	\$140,794,507	\$143,402,177	\$211,966,973
Private Household Operations	1,476	\$4,327,664	\$4,327,664	\$4,327,664
Private Hospitals	1,374	\$81,408,321	\$93,102,446	\$172,928,948
Nursing and Residential Care Facilities	1,238	\$38,837,498	\$45,868,778	\$68,645,428
Wholesale Trade Businesses	1,122	\$77,342,970	\$138,738,900	\$219,486,145
Retail Stores - General Merchandise	956	\$25,929,810	\$44,243,747	\$55,106,223
Retail Stores - Food and Beverage	917	\$24,914,353	\$35,232,181	\$50,372,681
Employment Services	747	\$16,646,454	\$18,573,175	\$23,293,885

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.



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# Profile: Howell's Grocery & Restaurant in Stuart, VA

Illustrating  
Direct, Indirect,  
and Induced  
Impacts

Howell's Grocery  
& Restaurant



Situated in the foothills of the Virginia Blue Ridge Highlands, Stuart is an iconic American town. Like other rural towns, small business is central to Stuart's economy.

Howell's Grocery and Restaurant is one of the oldest businesses in the town. The Howell family has owned and operated the business since 1924. It is a favorite of locals for a good meal, provides income for its employees and supports other regional businesses.

"I'm getting up there in years, but I love what our restaurant provides – friendship, food, and jobs," says Leon Howell. Along with his wife Chris, Leon has run the business since taking over in the 1980s after his father passed away.

retirees at Howell's for a bite to eat. Even during the recession, I still dined out occasionally because my pension income didn't go down," Phyllis says

As much as possible, Howell's purchases its supplies and food from other regional businesses. This is an example of an **indirect economic impact**. As a result of a consumer purchase, a business purchases supplies and services from other businesses, which generates an economic ripple effect.

Then, the owners and employees of Howell's, and of the businesses that supply goods and services to the restaurant, spend the personal income that resulted from retirees' pension spending. This is called an **induced economic impact**.



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# Profile: Retiree Spending in Maryland



## How Retirees Spend

Tish Raff

"I love my new Toyota hybrid!" says 68-year-old Marylander Tish Raff.

Tish will make monthly payments for the next four years on a new car that reduces her trips to the pump and makes her feel better about protecting the environment.

"I am retired from full-time work, but it's been a busy time. I'm trying to simplify and stay prepared for this new phase of life," says Tish.

In addition to trading in her old car at Westminster Koons Toyota, she sold her single family home last year and purchased another in an adult community. Tish does not want to worry about mowing grass and shoveling snow as she ages.

"I still have a mortgage, but I can afford a car and a house payment because I earned a pension that provides a reliable income," she explains.

There were years Tish took time out of the workforce to raise her children, but she still accumulated 26 years of service. She did not think much about retirement in her younger years, but now values her pension.

"I know my retirement income will last and won't fluctuate with

stock market ups and downs," she says.

Her pension income is all the more important because she is single. "I'm self-sufficient despite the financial obstacles facing women. We typically earn less and work fewer years, but we need more money than men in retirement because we live longer," she explains.

Tish now spends more time with friends and family. She enjoys lunch in local restaurants and helping her adult children juggle work and family demands. She also contributes to the college savings accounts she set up for her grandchildren.

"Retirement should be a stress free time, but unfortunately that isn't the case for everyone," Tish says. She appreciates that she can safely spend money and support local businesses that create jobs. Her spending also generates revenue for the state.

"Just think about the taxes and fees I paid when I bought a car and house! Not to mention my purchases at the grocery store," she says.

"Everyone needs a pension. It's good for me. It's good for Maryland's economy," Tish says.



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# Conclusions

- DB pensions provide a critical source of reliable income for over 24 million retired Americans.
- DB pension benefits support **\$943 billion in economic activity** and have a large economic footprint in every state and industry.
- State and local pensions have sizable multipliers – up-front investment of taxpayer dollar goes a long way.



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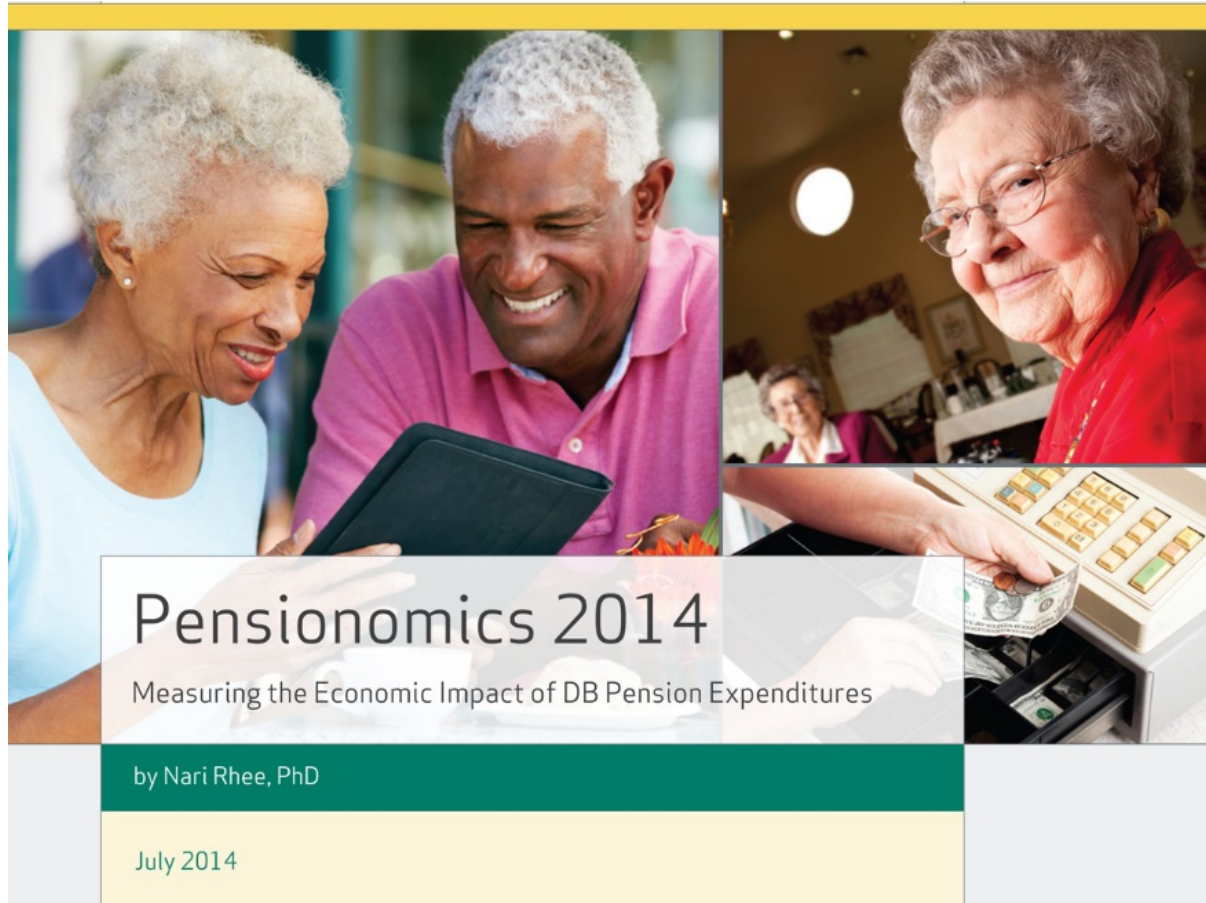
# Conclusions

- DB pensions have **large ripple effects** – one retiree's spending becomes another's income, that provide critical economic support...
  - **6.2 million American jobs** that paid **\$307 billion** in income.
- Pensions are “automatic stabilizers,” providing steady economic contribution through economic ups and downs.



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# Questions?



[www.nirsonline.org](http://www.nirsonline.org)  
Replay will be posted.