Pensionomics 2012: Measuring the Economic Impact of DB Pension Expenditures

NIRS Third Annual Retirement Policy Conference
Sheraton Four Points Hotel
March 6, 2012
$1 Trillion…
Why We Did This Study

• Measure the “ripple effect” of DB pension plans.

• DB benefits can act as an economic stabilizer.

• Retirees with a reliable pension can maintain spending even in tough times.

• Quantify the economic impact of pension spending on the U.S. economy.
Overview of Public and Private Pension Payments in the U.S.

### Public and Private Sector Pension Benefits, 2009

<table>
<thead>
<tr>
<th></th>
<th>State and Local</th>
<th>Federal</th>
<th>Private Sector</th>
<th>Total*</th>
</tr>
</thead>
<tbody>
<tr>
<td>Beneficiaries</td>
<td>8.0 million</td>
<td>2.5 million</td>
<td>8.4 million</td>
<td>18.9 million</td>
</tr>
<tr>
<td>Total Benefits</td>
<td>$187.0 billion</td>
<td>$67.6 billion</td>
<td>$171.5 billion</td>
<td>$426.2 billion</td>
</tr>
<tr>
<td>Average Benefit</td>
<td>$23,407</td>
<td>$27,081</td>
<td>$20,298</td>
<td>$22,504**</td>
</tr>
</tbody>
</table>


* Totals may not add up exactly due to rounding.

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

A retired firefighter...

DIRECT IMPACT

...uses his pension money to buy a new lawnmower.

INDIRECT IMPACT

As a result of that purchase, the owner of the hardware store, the lawnmower salesman, and each of the companies involved in the production of the lawnmower all see an increase in income, and spend that additional income.

INDUCED IMPACT

These companies hire additional employees as a result of this increased business, and those new employees spend their paychecks in the local economy.
Results: DB Pensions Support $134 Billion in Tax Revenue

Table 6. DB Pensions Support $74.3 Billion in Federal Tax Revenue

<table>
<thead>
<tr>
<th></th>
<th>From State and Local Pensions</th>
<th>From Federal Pensions</th>
<th>From Private Pensions</th>
<th>Total Federal Tax Revenue*</th>
</tr>
</thead>
<tbody>
<tr>
<td>Taxes Paid by Beneficiaries on Benefits</td>
<td>$3.2 billion</td>
<td>$1.1 billion</td>
<td>$2.9 billion</td>
<td>$7.2 billion</td>
</tr>
<tr>
<td>Tax Revenue Resulting from Retiree Expenditures</td>
<td>29.4 billion</td>
<td>10.6 billion</td>
<td>27.0 billion</td>
<td>67.0 billion</td>
</tr>
<tr>
<td>Total Federal Tax Revenue Impact</td>
<td>$32.6 billion</td>
<td>$11.8 billion</td>
<td>$29.9 billion</td>
<td>$74.3 billion</td>
</tr>
</tbody>
</table>

Table 7. DB Pensions Support $59.7 Billion in State and Local Tax Revenue

<table>
<thead>
<tr>
<th></th>
<th>From State and Local Pensions</th>
<th>From Federal Pensions</th>
<th>From Private Pensions</th>
<th>Total State and Local Tax Revenue*</th>
</tr>
</thead>
<tbody>
<tr>
<td>Taxes Paid by Beneficiaries on Benefits</td>
<td>$2.4 billion</td>
<td>$858.9 million</td>
<td>$2.2 billion</td>
<td>$5.5 billion</td>
</tr>
<tr>
<td>Tax Revenue Resulting from Retiree Expenditures</td>
<td>23.8 billion</td>
<td>8.6 billion</td>
<td>21.8 billion</td>
<td>54.2 billion</td>
</tr>
<tr>
<td>Total State and Local Tax Revenue Impact</td>
<td>$26.2 billion</td>
<td>$9.4 billion</td>
<td>$24.0 billion</td>
<td>$59.7 billion</td>
</tr>
</tbody>
</table>
Results: DB Pensions Support 6.5 Million American Jobs

- State & Local: 2,865,120
- Federal: 1,035,968
- Private: 2,627,754
Results: DB Pensions Support $1 Trillion in Economic Activity

- **State & Local**: $442.6 billion
- **Federal**: $160.0 billion
- **Private**: $405.9 billion

Pensionomics: Measuring the Economic Impact of DB Pension Expenditures
Results: Pension Expenditure Multiplier

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

$2.37 total output
Financing of State and Local Pension Plans, 1993-2009

- Employee Contributions: 14.0%
- Employer Contributions: 27.15%
- Investment Earnings: 58.85%
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 state and local pensions over 30 years → $8.72 total output
Results: Economic Impacts By State
State Fact Sheets available at www.nirsonline.org
Conclusion

- DB pensions provide a critical source of reliable income for 19 million retired Americans.
- Also provide critical economic support...
  - $134 billion in tax revenue
  - 6.5 million American jobs
  - $1 trillion in economic activity
- Pensions are “automatic stabilizers,” providing important stimulus during tough times.
Members Only Webinar:
Wed, March 14, 12 PM ET

Interested Parties Webinar:
Thu, March 15, 1 PM ET