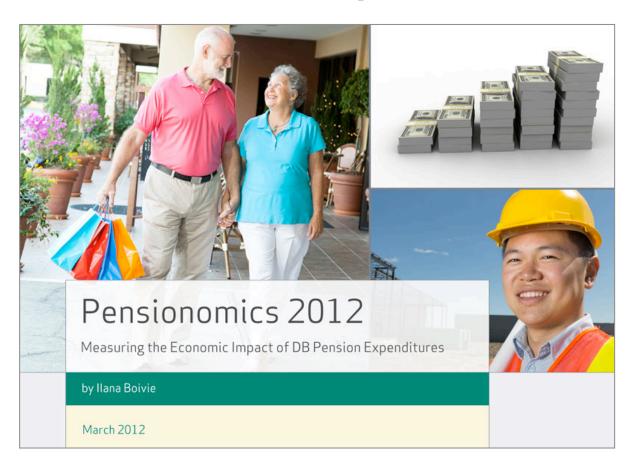
# Pensionomics 2012: Measuring the Economic Impact of DB Pension Expenditures



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

	State and Local	Federal	Private Sector	Total*
Beneficiaries	8.0 million	2.5 million	8.4 million	18.9 million
Total Benefits	\$187.0 billion	\$67.6 billion	\$171.5 billion	\$426.2 billion
Average Benefit	\$23,407	\$27,081	\$20,298	\$22,504**

Sources: U.S. Census Bureau State and Local Government Employee-Retirement Systems, U.S. Office of Personnel Management Federa Annuity Roll, U.S. Bureau of Labor Statistics Current Population Survey, and author's calculations.



<sup>\*</sup>Totals may not add up exactly due to rounding.

<sup>\*\*</sup> Total average benefit represents a weighted average of public and private sector benefits.





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

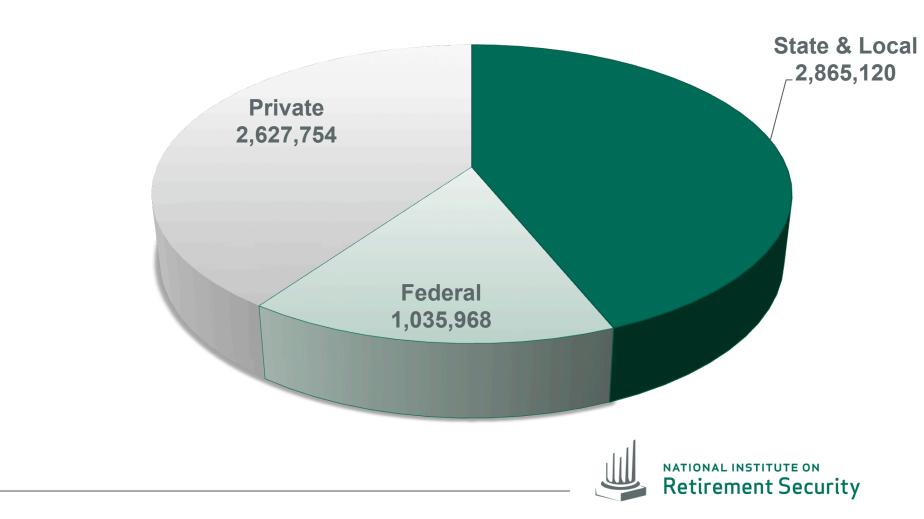
	From State and Local Pensions	From Federal Pensions	From Private Pensions	Total Federal Tax Revenue*
Taxes Paid by Beneficiaries on Benefits	\$3.2 billion	\$1.1 billion	\$2.9 billion	\$7.2 billion
Tax Revenue Resulting from Retiree Expenditures	29.4 billion	10.6 billion	27.0 billion	67.0 billion
Total Federal Tax Revenue Impact	\$32.6 billion	\$11.8 billion	\$29.9 billion	\$74.3 billion

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

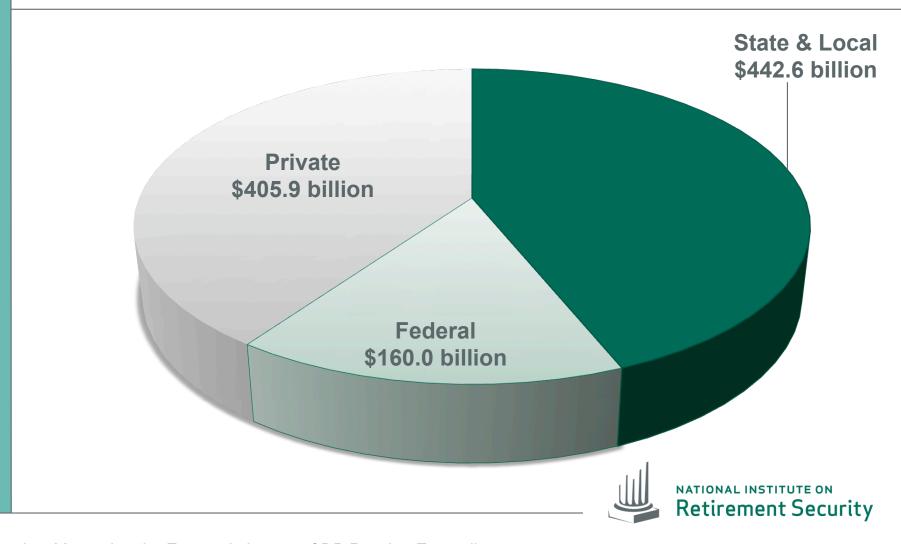
	From State and Local Pensions	From Federal Pensions	From Private Pensions	Total State and Local Tax Revenue*
Taxes Paid by Beneficiaries on Benefits	\$2.4 billion	\$858.9 million	\$2.2 billion	\$5.5 billion
Tax Revenue Resulting from Retiree Expenditures	23.8 billion	8.6 billion	21.8 billion	54.2 billion
Total State and Local Tax Revenue Impact	\$26.2 billion	\$9.4 billion	\$24.0 billion	\$59.7 billion



## Results: DB Pensions Support 6.5 Million American Jobs



# Results: DB Pensions Support \$1 Trillion in Economic Activity



## 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



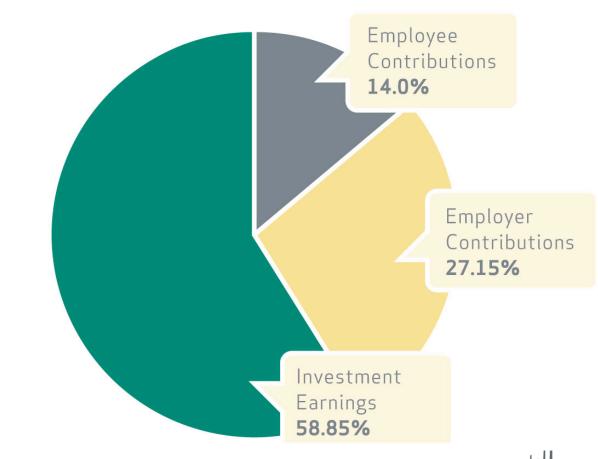




\$2.37 total output



## Financing of State and Local Pension Plans, 1993-2009



## 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







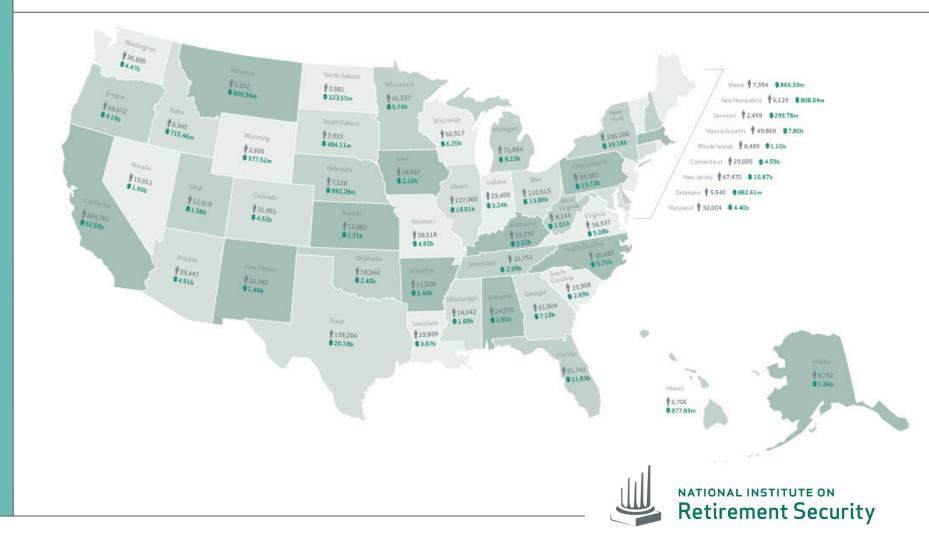


\$8.72 total output





## Results: Economic Impacts By State



# State Fact Sheets available at www.nirsonline.org

#### ALABAMA

#### Pensionomics 2012:

Retirement Security

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 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 2009, expenditures stemming from state and local pensions supported...

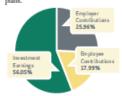
- 24,576 jobs that paid \$9 09.9 million in wages and salaries
- \$2.9 billion in total economic output
- \$408.8 million in federal, state, and local tax revenues
- ... in the state of Alabama.

Each dollar paid out in pension benefits supported \$1.22 in total economic activity in Alabama.

Each dollar "invested" by Alabama taxpayers in these plans supported \$4.71 in total economic activity in the state.

#### Overview

Expenditures made by retirees of state and local government provide a steady economic stimulus to Alabama communities and the state economy. In 2009, 111,216 residents of Alabama received a total of \$2.4 billion in pension benefits from state and local pension plane.



The average pension benefit received was \$1,784 per month or \$21,404 per year. These modest benefits provide retired teachen, public safety personnel, and others who served the public during their working careers income to meet basic needs in retirement.

Between 1993 and 2009, 25.96% of Alabama's pension fund receipts came

from employer contributions, 17.99% from employee contributions, and \$6.05% 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 24,576 jobs in the state. The total income to state residents supported by pension expenditures was \$909.9 million.

To put these employment impacts in perspective, in 2009 Alabama's unemployment rate was 9.796. The fact that DB pension expenditures supported 24,576 jobs is significant, as it represents 1.1 percentage points in Alabama's labor force.

#### Economic Impact

State and local pension funds in Alabama and other states paid a total of \$2.4 billion in benefits to Alabama residents in 2009. Retirees' expenditures from these benefits supported a total of \$2.9 billion in total economic output in the state, and \$1.6 billion in value added in the state.

\$1.5 billion in direct economic impacts were supported by retirees' initial expenditures. An additional \$794.1 million in indirect impact resulted when these businesses purchased additional goods and services. \$654.0 million in induced impacts occurred when employees hired by businesses as a result of the direct and indirect impacts made expenditures.

Total Economic Impact \$2.9 billion

DIRECT IMPACT \$1.5 billion INDIRECT IMPACT \$794.1 million

INDUCED IMPACT \$654.0 million National Institute on Retirement Security

Pensionomics 2012: Measuring the Economic Impact of DB Pension Expenditures

ALABAMA

#### Economic Multipliers



Each st in trappayer contributions to Alabama's state and local pension plans supported #4.71 in total output in the state. This reflects the fact that trappayer contributions are a minor source of financing for retirement benefits—investment earnings and employee contributions finance the lights share.



Each \$1 in state and local pension benefits paid to Alab ama resident sulfilms tely supported \$1.22 in total output in the state. This "multiplier" in corporates the direct, indirect, and induced impacts of retires spending as it ripplies through the state economy.

#### Impact on Tax Revenues

State and local pension payments made to Alabama residents supported a total of \$408.8 million in revenue to federal, state, and local governments. Taxes paid by retirees and beneficiaries directly out of pension payments totaled \$39.7 million. Taxes attributable to direct, indirect and induced impacts accounted for \$369.1 million in tax revenue.

Federal Tax	219.7 million
State/Local Tax	189.1 million
Total	\$408.8 million

#### 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.

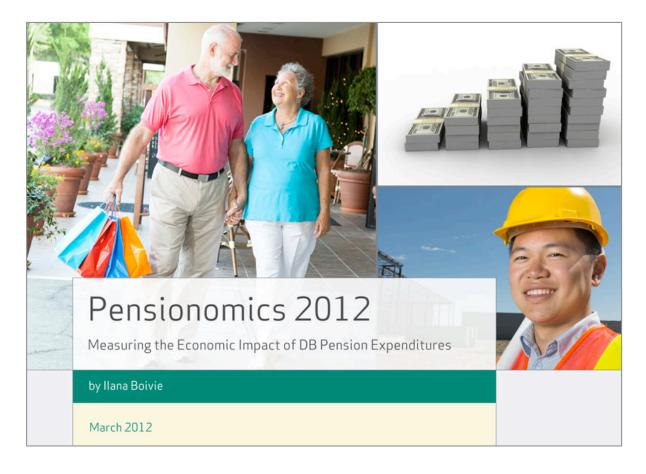
Industry	Employment Impact (#Jobs)	Labor Income Impact	Value Added Impact	Output Impact
Food Services and Drinking Places	2,339	\$44,001,741	\$63,039,313	£1 29,831,880
Real Estate Establishments	1,509	\$15,843,762	\$118,346,845	\$163,346,251
Private Household Operations	1,324	\$4,994,005	\$4,994,005	\$5,178,518
Nursing and Residential Care Facilities	1,234	¢39,707,115	\$42,867,186	\$75,972,411
Physicians, Dentists, and other Health Practitioners	1,174	\$96,942,518	£103,419,519	\$169,697,150
Private Hospitals	1,096	\$63,277,021	\$67,552,496	\$149,290,429
Retail Stores - General Merchandise	559	\$16,315,068	\$26,598,052	\$30,228,235
Civic, Social, Professional, and Similar Orgs.	502	\$15,512,494	\$15,650,402	\$29,575,062
Retail Stores - Food and Beverage	491	£13,586,677	\$22,036,347	\$25,181,226
Employment Services	421	\$8,399,813	\$10,008,897	\$12,391,721

<sup>\*</sup>Caution should be used in interpreting the senumbers. See the Technical Appendix of the full Pension omics report for details.

### 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