Issue Brief

Pensionomics 2018: Measuring the Economic Impact of Multiemployer DB Pension Expenditures

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EXECUTIVE SUMMARY

Defined benefit (DB) pension benefits not only provide a secure source of income for many retired Americans, they also contribute substantially to the national and local economies. DB pensions play a vital role in sustaining consumer demand as retirees can rely on monthly pension payments and maintain their spending that ultimately supports millions of jobs.

Our economy benefits from the spending from pension checks. For example, when a retired steamfitter receives a pension benefit payment, he or she spends the pension check on goods and services in the local community. These purchases, combined with those of other retirees with pensions, create a steady economic ripple effect. Nationally, each dollar paid out in pension benefits supported $2.13 in total economic output in 2016.[1]

Retirees with DB pensions have less worry about economic conditions in contrast to other, retirees who may be reluctant to spend out of their 401(k)-type accounts if their savings declines due to market downturns.[2] To the extent that DB pensions provide retirees with steady income available for spending regardless of fluctuations in the stock market, DB pensions may play a stabilizing role in the economy, similar to Social Security or unemployment insurance.[3] This study analyzes data on specific private sector DB pension plans (referred to as "multiemployer plans") to assess the overall national economic impact of benefits paid by these plans to retirees.

We estimate the employment, output, value added, and tax impacts of pension benefit expenditures from multiemployer plans at the national level, and find that the economic gains attributable to private sector multiemployer DB pension expenditures are considerable.

In 2016, $41.8 billion in pension benefits were paid to 3.5 million retired Americans covered by multiemployer plans. The average benefit paid to retirees covered by these plans was $11,935 per year. Expenditures made out of those pension payments collectively supported:

- Nearly 543,000 American jobs that paid nearly $28 billion in labor income;
- $89 billion in total economic output nationwide;
- $50 billion in value added (GDP); and
- $14.7 billion in federal, state, and local tax revenue.

The largest employment impacts occurred in the real estate, food services, health care, and retail trade sectors.

I. INTRODUCTION: MEASURING THE ECONOMIC IMPACT OF MULTIEMPLOYER DB PENSIONS

Background: Private Sector DB Pensions in the United States

Defined benefit (DB) pension plans have existed in the United States since the 19th century. Over time, many private sector employers saw the value of offering DB pension coverage to their employees, as these benefits not only were quite valued by workers, but from a human resource management perspective, they also acted as an effective recruitment and retention tool.[4] Although private sector DB plans have experienced a decline in recent decades due in large part to a difficult regulatory environment,[5] in 2016, 18 percent of full-time private sector employees still had access to DB pension coverage.[6]

DB pensions differ from defined contribution (DC) plans, such as 401(k) plans, in that they provide broad-based coverage, secure money for retirement, a lifetime income, and special protections for spouses.[7] Research shows that DB plans are more economically efficient than DC plans. Pensions can deliver the same level of retirement income at nearly half the cost of a DC plan.[8]

Private sector pension plans covered 40 million Americans in 2016,[9] including 13.5 million retired Americans and other beneficiaries.[10] There are two major types of private sector pension plans: multiemployer plans and single employer plans. Multiemployer plans, also called "Taft-Hartley" plans, cover multiple employers whose workers are covered by a collective bargaining contract, usually within the same industry or geographic region. These plans are jointly governed by management and the labor union(s) representing covered workers. Single employer plans generally cover the workforce at a single company. A summary of the differences between single and multiemployer pension plans is provided in **Table 1**.

In 2016, single employer plans provided some $158.6 billion in benefits to over 10.0 million retirees and beneficiaries, for an average benefit of roughly $15,800 per year. Multiemployer plans cover fewer workers. About 3.5 million beneficiaries received benefits totaling $41.8 billion from multiemployer plans, for an average benefit of just under $12,000 per year.

Table 1. **Key Differences Between Single and Multiemployer Pension Plans**

	Single Employer Plan	Multiemployer Plan
Who administers and oversees the plan?	The sponsoring company	A third party administrator. The plan is governed by a joint labor-management board of trustees
Who is covered by the plan?	Typically, all or most of the workers at a single company	The workers covered by the union(s) that represent them
Who is responsible for pension contributions?	The sponsoring company	All employers participating in the plan. Trustees can choose to sue a participating employer that fails to pay its contributions on time
Is the pension portable when the employee changes jobs?	Rarely	Yes, if the worker is moving from one company to another that is also covered by the plan
What is the maximum PBGC benefit guarantee in 2019?*	$67,295 per year	$12,870 per year

*For a single-life annuity at age 65, based on "basic benefits" only. Multiemployer benefit maximum is based on 30 years of covered work experience.

II. MEASURING THE NATIONAL ECONOMIC IMPACT OF MULTIEMPLOYER DB PENSION PLANS

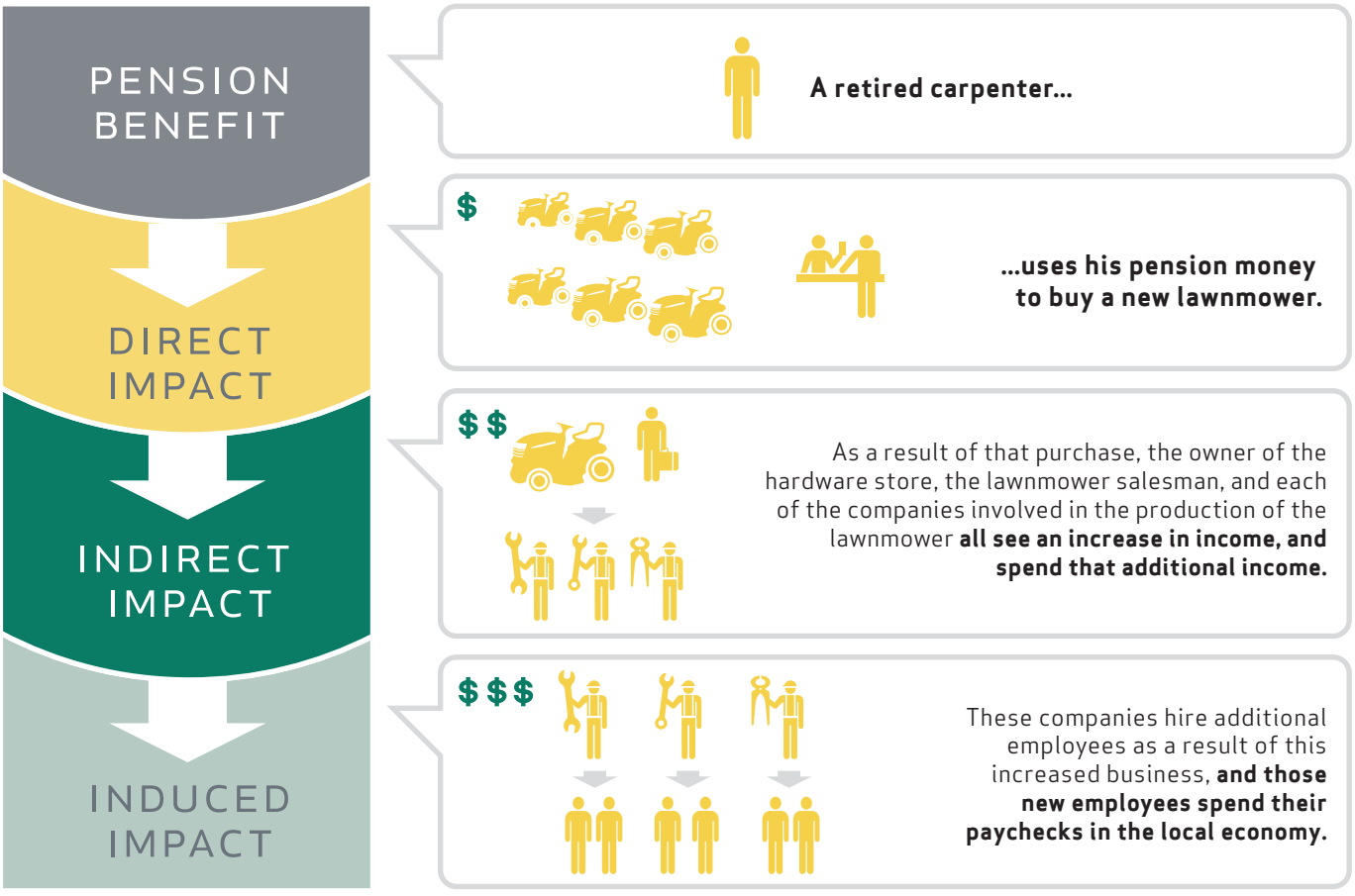
This issue brief measures the economic impact of pension benefits paid by private sector multiemployer pension plans nationally.

When a retiree receives a pension benefit, s/he spends it on goods and services in the local community. These expenditures have a "ripple effect" in the economy, as one person's expenditures become another person's income.

When money is spent at a local business to purchase, say, groceries, that initial purchase generates even more income. First, some of the money spent circulates back to the businesses that manufactured, transported, and otherwise contributed to the production of those goods. Second, the proprietors of these businesses and their employees will spend more money at other businesses, spurring another round of income generation. Thus, with each new round of spending, additional revenue is generated, sustaining jobs, incomes, total output, and tax revenue.

We analyze the economic impact of expenditures made by retirees out of their DB pension payments from private sector multiemployer plans along four dimensions: employment and labor income, output, value added, and tax revenues. Using IMPLAN, we calculate the direct, indirect, and induced impact for each dimension as described in the illustration below.

The Multiplier Effect: How Spending by Retirees Covered by Multiemployer Plans Ripples Through the Economy, Supporting Jobs and Incomes in the Process



III. RESULTS: NATIONAL ECONOMIC IMPACT OF MULTIEMPLOYER DB PENSION PLANS

Our analysis indicates that multiemployer DB pension benefits contribute substantially to the national economy. DB pensions play a vital role in sustaining consumer demand that, in turn, ultimately supports millions of jobs, and hundreds of billions of dollars in income, output, value added, and tax revenues.

Pension Multiplier

We find that for every dollar in multiemployer pension benefits paid out in 2016, $2.13 in total economic output was supported throughout the United States.

Employment and Income

Our analysis shows that the $41.8 billion in gross pension benefits paid out from multiemployer plans in 2016 supported over a half a million jobs in the national economy. All told, 246,324, jobs were attributable to direct impacts (direct spending by retirees), 122,978 to indirect impacts (spending by merchants on businesses further up the supply chain), and 173,566 through induced impacts (additional jobs supported when employees whose jobs are tied to direct and indirect spending rounds spend their paychecks). These jobs collectively paid out an estimated $27.9 billion in labor income. See **Table 2** for more details.

Total Output

Our model further finds that the $41.8 billion in private pension benefit payments paid to retirees of multiemployer plan in 2016 supported $89 billion dollars in overall economic output in the national economy. This consisted of $35.7 billion in direct impacts, $24.9 billion in indirect impacts, and $28.5 billion in induced impacts. See **Table 3** for more details.

Value Added (GDP)

Retirees' expenditures from multiemployer DB pension benefit payments supported $49.5 billion in value added to the national economy in 2016. See **Table 3** for more details.

Tax Revenue

Our analysis finds that an estimated $14.7 billion in total tax revenue was attributable to private pension benefits from multiemployer plans in 2016, including $8.4 billion in federal tax revenue and $6.3 billion in state and local tax revenue. **Table 4** shows that tax revenue comes from two major sources: taxes paid by beneficiaries directly on their pension benefits ($3.2 billion for multiemployer plan beneficiaries) and taxes resulting from expenditures made in the local economy (for example, sales taxes resulting from a retail purchase).

Economic Impacts by Industry

Table 5 breaks down the economic effects of multiemployer pension expenditures by retirees by the top ten industry sectors affected. Nationally, the largest employment impacts were seen in the real estate, food service, health care, and wholesale and retail trade sectors.

Pension Expenditure Multiplier

$1.00
pension benefits paid to retirees with DB pension income

$2.13
total output

Each $1 in pension benefits paid to retirees ultimately supported $2.13 in total output throughout the country. This "multiplier" incorporates the direct, indirect, and induced impacts of retiree spending, as it ripples through the U.S. economy.

Table 2. **Multiemployer DB Pensions Support 543,000 Jobs and $28 Billion in Labor Income**

	Jobs Supported	Labor Income Supported
Direct Impact	246,324	$11.3 billion
Indirect Impact	122,978	$7.7 billion
Induced Impact	173,566	$9.0 billion
Total Impact	**542,868**	**$27.9 billion**

* Totals may not add up exactly due to rounding.

Table 3. **Multiemployer DB Pensions Support $89 Billion in Total Output and $50 Billion in Value Added (GDP)**

	Total Output	Value Added
Direct Impact	$35.7 billion	$20.4 billion
Indirect Impact	$24.9 billion	$13.1 billion
Induced Impact	$28.5 billion	$15.9 billion
Total Impact	**$89.0 billion**	**$49.5 billion**

* Totals may not add up exactly due to rounding.

Table 4. **Multiemployer DB Pensions Support $14.7 Billion in Federal, State, and Local Tax Revenue**

	Federal	State and Local
Taxes paid by beneficiaries on their benefits	$1.5 billion	$1.7 billion
Tax revenue resulting from retiree expenditures	$6.9 billion	$4.6 billion
Total Tax Revenue	**$8.4 billion**	**$6.3 billion**

* Totals may not add up exactly due to rounding.

Table 5. **Industries with the Most Jobs Supported from Multiemployer Pension Expenditures**

Industry	# Jobs Supported
Real estate	30,181
Full-service restaurants	20,961
Nursing and community care facilities	20,121
Limited-service restaurants	19,530
Hospitals	19,073
Wholesale trade	16,072
Retail - General merchandise stores	13,483
Retail - Food and beverage stores	12,752
Individual and family services	12,365
Offices of physicians	11,847

IV. CONCLUSION

In 2016, multiemployer plans paid out nearly $42 billion in pension benefits to some 3.5 million retired Americans and their beneficiaries. Although these pension benefits are relatively modest—just under $12,000 per year, on average—they provide a critical source of retirement income to ensure financial security in retirement In addition, multiemployer pension benefit expenditures generate economic benefits that reach well beyond those who earned benefits during their working years.

Because DB pensions provide steady, secure income to retirees, retirees are able to spend their paychecks regularly in their local economies. This provides vital revenues to local businesses and income to local workers. The economic gains are considerable, and support the national economy with jobs, incomes, and tax revenue. Pension benefits play an important role in providing a stable, reliable source of income regardless of economic climate—for both retired Americans and the communities in which their retirement checks are spent.

IV. ENDNOTES

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3 Ghilarducci, op cit.

4 For a full discussion see I. Boivie and C. Weller, 2012, "How DB plans influence labor relations in the wake of the Great Recession," in D.J.B. Mitchell, Ed., *Public Jobs and Political Agendas: The Public Sector in an Era of Economic Stress*, Labor and Employment Relations Association Research Volume, Cornell University Press, Ithaca, NY.

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10 U.S. Census Bureau and U.S. Bureau of Labor Statistics (BLS), 2016, Current Population Survey Annual Social and Economic Supplement, "Source of Income in 2016-Number with Income and Mean Income of Specified Type in 2016 of People 15 Years Old and Over by Age, Race, and Hispanic Origin, and Sex," BLS, Washington, DC.

ABOUT THE AUTHOR

Diane Oakley is the Executive Director of the National Institute on Retirement Security. Before joining NIRS in 2011, Ms. Oakley worked for Representative Earl Pomeroy (ND) as a senior advisor on pension, tax, Social Security, financial services and workforce issues. Ms. Oakley held leadership and management positions with TIAA for more than two decades. She has appeared on CNBC, Fox Business and C-SPAN speaking on retirement security issues facing American workers. She holds a B.S. in Mathematics from Fairfield University and an M.B.A. in Finance from Fordham University.

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DATA AND METHODOLOGY

The data used for our analysis comes primarily from two sources: the U.S. Census and IMPLAN. Data on private pension benefits comes from the Census Bureau and Bureau of Labor Statistics' Current Population Survey Annual Social and Economic Supplement (CPS ASEC), which reports sources of household income, including pension and survivor income, by age. Data on multiemployer pension benefits come from the authors' analysis of the IRS 5500 forms for 2016.

To measure the economic impacts of retiree expenditures made out of benefits paid by DB pension plans, the input-output modeling software, IMPLAN, was used. IMPLAN is used by industry and government analysts throughout the country to assess economic impacts of highly varied local community development projects.

Detailed information on our data and methodology and further discussion can be found in the Technical Appendix of *Pensionomics 2018*.

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