

IOWA

Pensionomics 2021:

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 Iowa.

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 2018, expenditures stemming from state and local pensions supported...

- 20,712 jobs that paid \$963.0 million in wages and salaries
- \$3.5 billion in total economic output
- \$551.0 million in federal, state, and local tax revenues

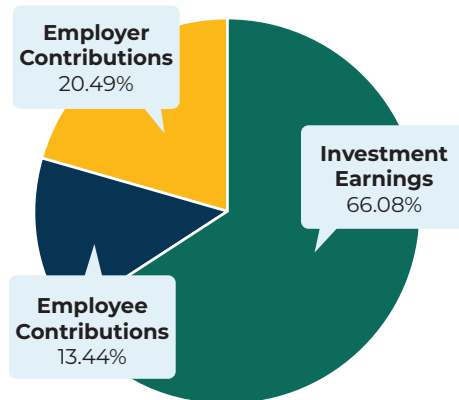
... in the state of Iowa.

Each dollar paid out in pension benefits supported \$1.52 in total economic activity in Iowa.

Each dollar "invested" by Iowa taxpayers in these pension plans supported \$7.44 in total economic activity in the state.

Overview

Expenditures made by retirees of state and local government provide a steady economic stimulus to Iowa communities and the state economy. In 2018, 127,996 residents of Iowa received a total of \$2.3 billion in pension benefits from state and local pension plans.



The average pension benefit received was \$1,515 per month or \$18,184 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 2018, 20.49% of Iowa's pension fund receipts came from employer contributions, 13.44% from employee contributions, and 66.08% from investment earnings.* Earnings on investments and employee contributions—not taxpayer based contributions—have historically made up the bulk of pension fund receipts.

Impact on Jobs and Incomes

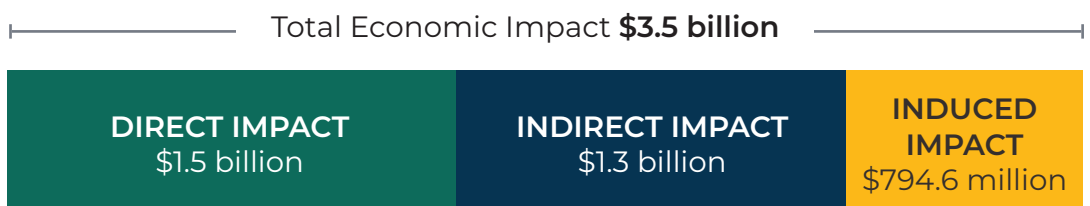
Retiree expenditures stemming from state and local pension plan benefits supported 20,712 jobs in the state. The total income to state residents supported by pension expenditures was \$963.0 million.

To put these employment impacts in perspective, in 2018 Iowa's unemployment rate was 2.6%. The fact that DB pension expenditures supported 20,712 jobs is significant, as it represents 1.31 percentage points in Iowa's labor force.

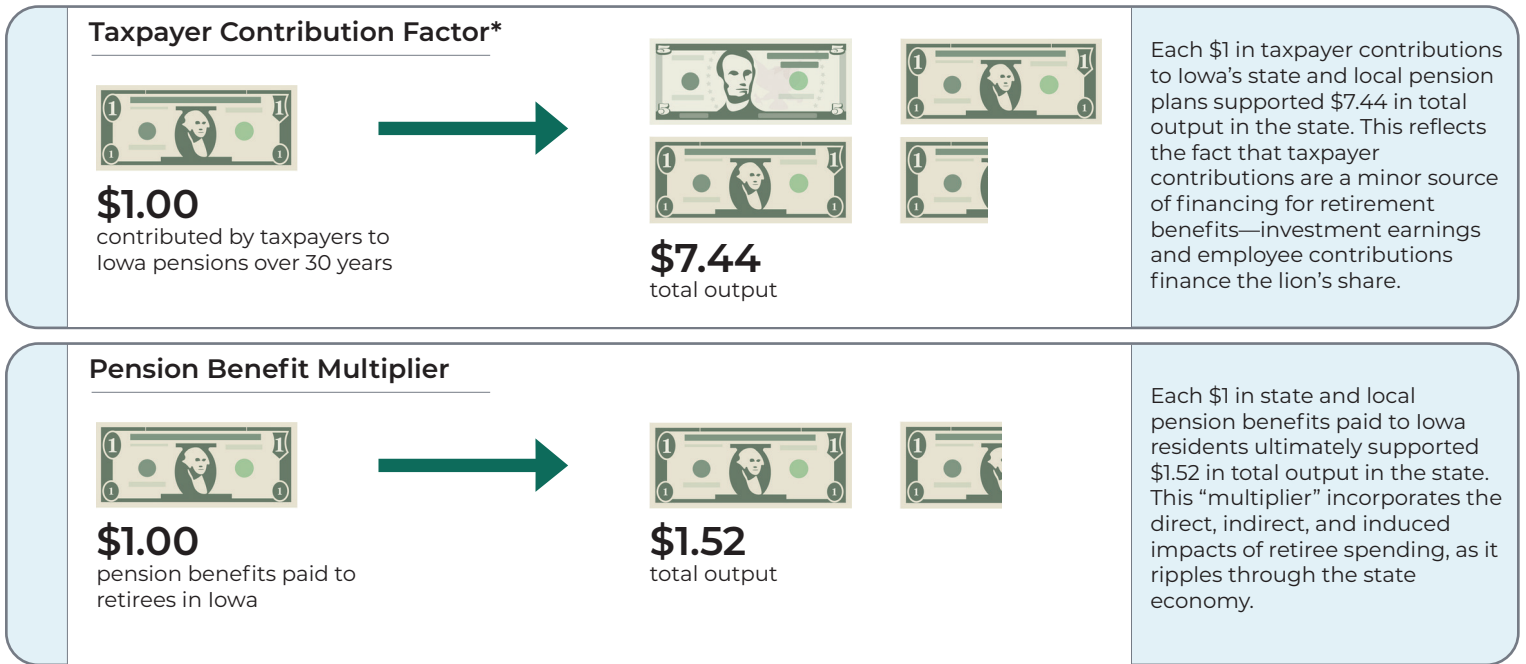
Economic Impact

State and local pension funds in Iowa and other states paid a total of \$2.3 billion in benefits to Iowa residents in 2018. Retirees' expenditures from these benefits supported a total of \$3.5 billion in total economic output in the state, and \$1.8 billion in value added in the state.

\$1.5 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. \$794.6 million in induced impacts occurred when workers employed by businesses as a result of the direct and indirect impacts made expenditures.



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 Iowa residents supported a total of \$551.0 million in revenue to federal, state, and local governments. Taxes paid by retirees and beneficiaries directly out of pension payments totaled \$185.0 million. Taxes attributable to direct, indirect, and induced impacts accounted for \$366.0 million in tax revenue.

| | |
|-----------------|------------------------|
| Federal Tax | \$270.7 million |
| State/Local Tax | \$280.3 million |
| Total | \$551.0 million |

Economic Impacts by Industry Sector

The economic impact of state and local pension benefits was broadly felt across various industry sectors in Iowa. 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 |
|---------------------------------------|----------------------------|---------------------|--------------------|---------------|
| Limited-service restaurants | 927.80 | \$17,720,668 | \$28,133,072 | \$66,899,782 |
| Hospitals | 888.80 | \$62,417,521 | \$72,539,459 | \$147,068,725 |
| Full-service restaurants | 789.00 | \$16,278,977 | \$23,855,781 | \$46,809,659 |
| Retail - Food and beverage stores | 642.50 | \$17,934,124 | \$25,121,885 | \$43,767,531 |
| Retail - General merchandise stores | 601.30 | \$18,256,108 | \$23,843,064 | \$40,332,931 |
| Offices of physicians | 569.80 | \$65,761,882 | \$76,771,801 | \$110,698,726 |
| Nursing and community care facilities | 540.70 | \$20,506,142 | \$22,509,411 | \$40,981,929 |
| Other real estate | 389.60 | \$8,007,697 | \$26,925,087 | \$72,662,596 |
| Retail - Nonstore retailers | 383.70 | \$4,616,073 | \$15,016,039 | \$43,123,378 |
| Religious organizations | 382.70 | \$18,718,632 | \$8,710,151 | \$35,488,195 |

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.