

Pensionomics

Spending by Public Retirees in Local Economies Supports Jobs and Revenue

NPEA Conference

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**NATIONAL INSTITUTE ON
Retirement Security**

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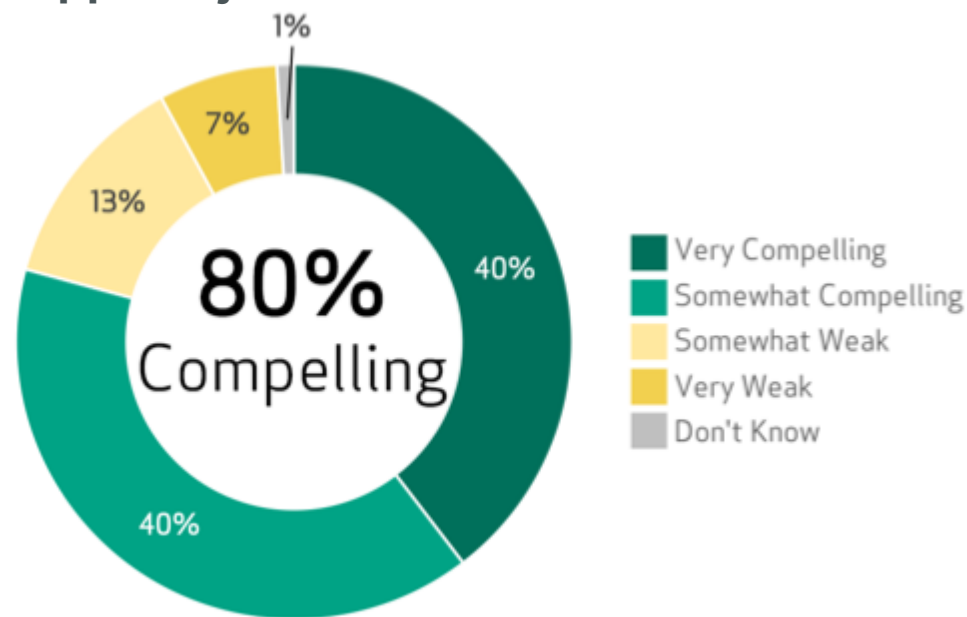
Why We Did This Study

- » 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.



Economic Impact of Retirees Spending Public Pensions Is a Compelling Message.

Please tell me to whether you find this a compelling message:
Retirees who receive monthly income from a pension use that money to buy goods and services in our communities, which contributes to our economy, supports jobs and adds value.

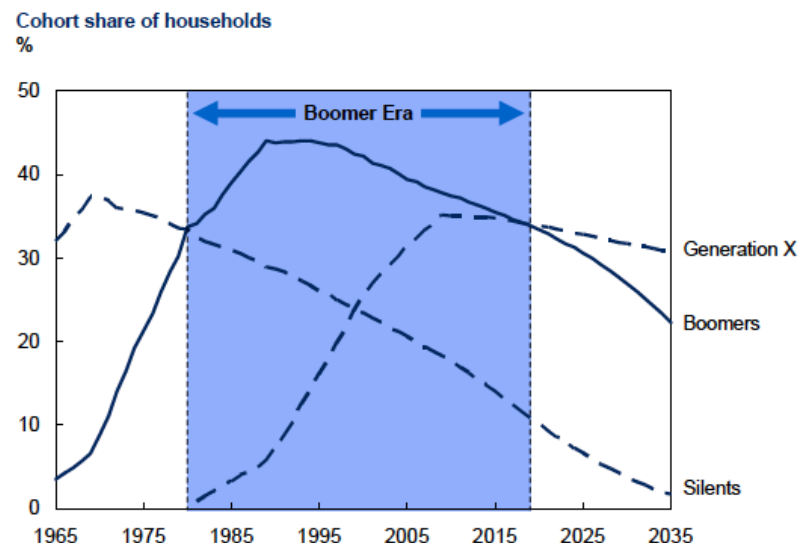


Retiree Spending Impact on Economy

Boomers Outsized Impact on US Economy;
responsible for 78% of GDP growth in 1995-2005

As Boomers work less and spend less – Growth of US Economy will slow to 2.4% from 3.5% over next 3 decades.

THE SIZE OF THE COHORT HAS CREATED A "BOOMER ERA" FROM 1980 TO 2019



Source: McKinsey Global Institute US Consumer Model, v7.2



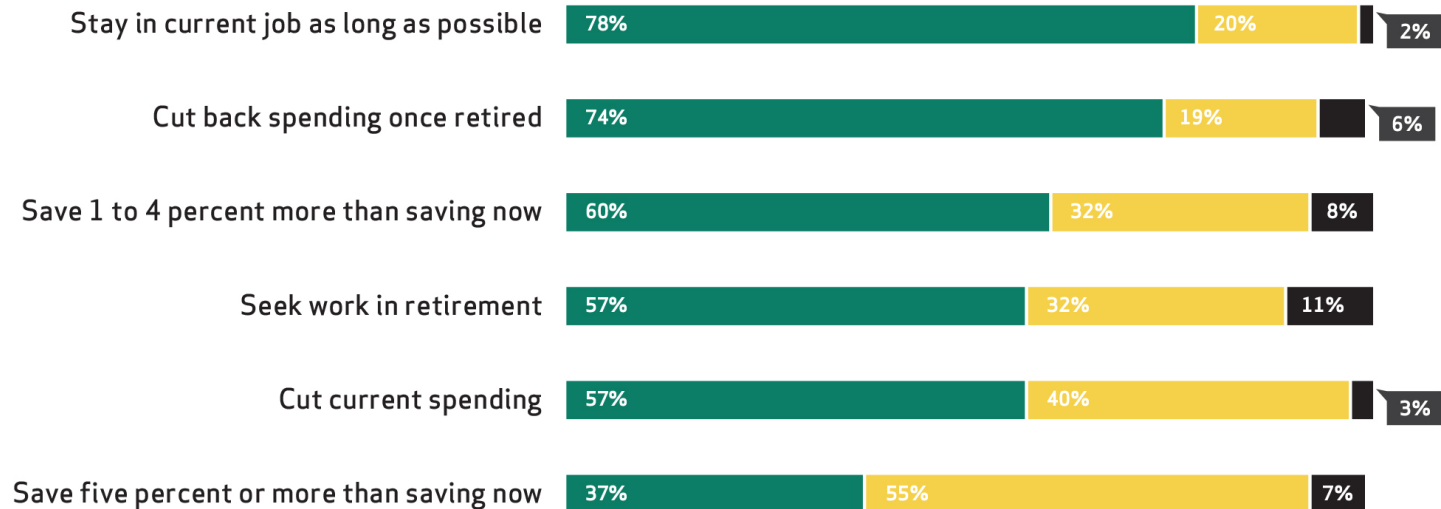
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Americans say they will work as long as possible and spend less in retirement.

Figure 14: **About three-fourths of working Americans say they will work as long as possible or cut spending in retirement to be secure in retirement.**

Which of the following, if any, do you plan to do to help ensure a financially secure retirement?

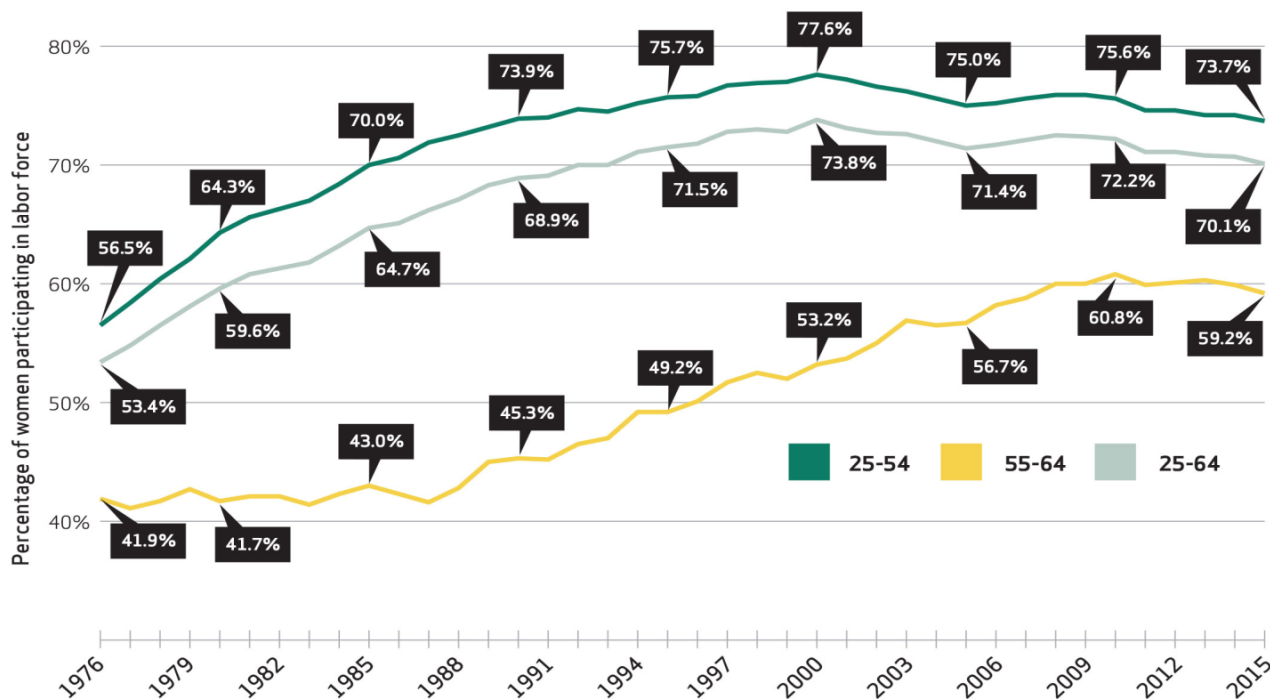
■ Yes ■ No ■ Don't Know/Refused



Boomer Women Staying in Workforce

Labor force participation among women aged 55 to 64 climbed to 59% in 2015.

Figure 1:
Labor Force Participation Rates for Women, Ages 25 to 64



Source: Authors' calculations using SIPP data.

Pensionomics 2016: What We Found

- » In 2014, expenditures from public and private pension benefits supported...
 - **\$1.2 trillion** in economic output nationwide
 - **7.1 million jobs** that paid **\$354.8 billion** in income
 - **\$627.4 billion** in value added nationally
 - **\$189.7 billion** in federal, state, and local tax revenue



What We Found

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

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What We Found

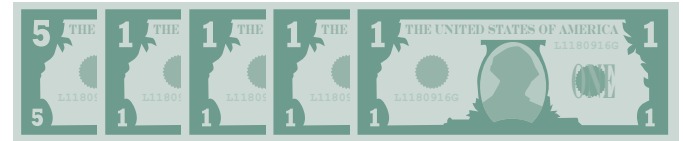
What is the “return” on each dollar taxpayers “invest” in state and local pension plans?

Taxpayer Investment Factor*



\$1.00

contributed by taxpayers to
state and local pensions over 30 years



\$9.19

total output



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

Public and Private Sector Pension Benefits, 2014

	State and Local	Federal	Private Sector	Total*
Beneficiaries	9.6 million	2.6 million	12.1 million	24.3 million
Average Benefit	\$26,455	\$30,302	\$15,520	\$21,413**
Total Benefits	\$253 billion	\$78.8 billion	\$187.9 billion	\$519.7 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.



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 - Behind the Numbers

- » **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.



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.



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., manufacturers and goods transport

INDUCED

Owners and employees of affected businesses spend their earnings



Direct, Indirect and Induced Impacts

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.

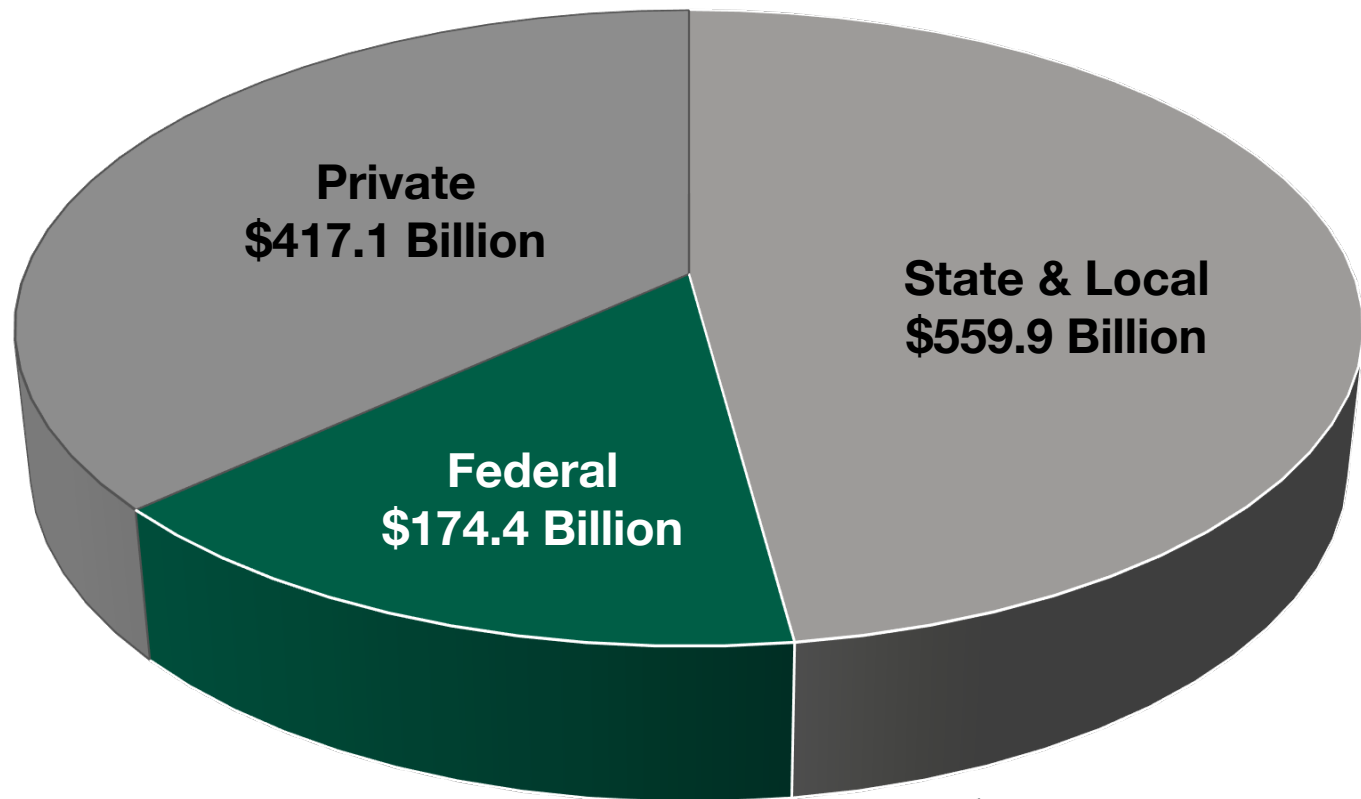
"I'm getting up there in years, but I love what our restaurant provides – friendship, food, and jobs," says Leon Howell. Along with his wife Chris, Leon has run the business since taking over in the 1980s after his father passed away.

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

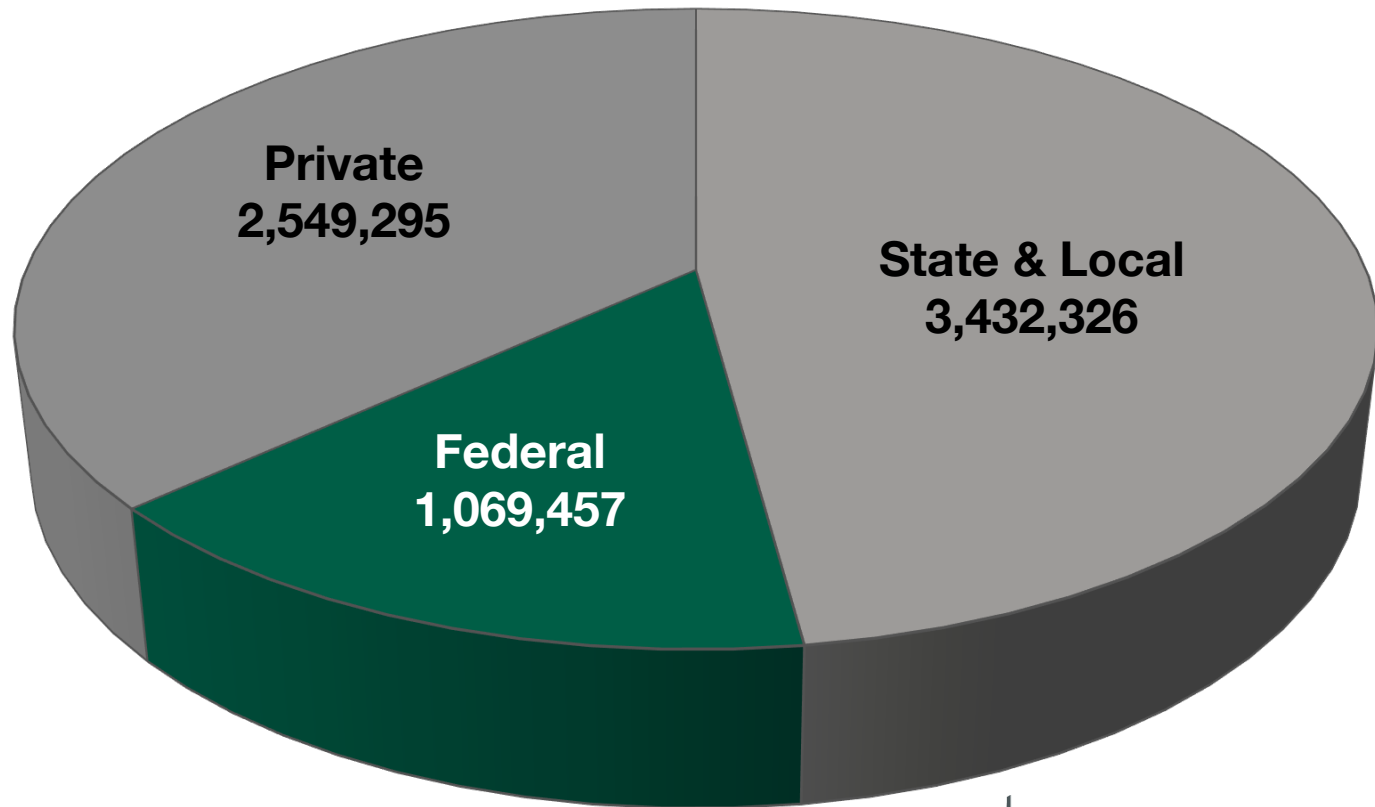
As much as possible, Howell's purchases its supplies and food from other regional businesses. This is an example of an **indirect economic impact**. As a result of a consumer purchase, a business purchases supplies and services from other businesses, which generates an economic ripple effect.

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**.

Results: DB Pensions Support \$1.2 Trillion in Economic Activity



Results: DB Pensions Support 7.1 Million American Jobs



Results: DB Pensions Support \$354.8 Billion in Labor Income

	State and Local Pensions	Federal Pensions	Private Pensions	Total Labor Income Supported*
Direct Impact	\$70.5 billion	\$22.0 billion	\$52.4 billion	\$144.9 billion
Indirect Impact	\$48.5 billion	\$15.1 billion	\$36 billion	\$99.7 billion
Induced Impact	\$53.7 billion	\$16.7 billion	\$39.9 billion	\$110.2 billion
Total Labor Income Impact*	\$172.7 billion	\$53.8 billion	\$128.3 billion	\$354.8 billion

*Totals may not add up exactly due to rounding.



Results: DB Pensions Support \$627.4 Billion in Value Added

	State and Local Pensions	Federal Pensions	Private Pensions	Value Added Supported*
Direct Impact	\$128.5 billion	\$40 billion	\$95.5 billion	\$264 billion
Indirect Impact	\$82.7 billion	\$25.8 billion	\$61.4 billion	\$169.8 billion
Induced Impact	\$94.2 billion	\$29.4 billion	\$70 billion	\$193.6 billion
Total Value Added Impact*	\$305.4 billion	\$95.2 billion	\$226.8 billion	\$627.4 billion

*Totals may not add up exactly due to rounding.



Results: Economic Impacts by Industry

» Industries with most jobs supported:

- Real estate establishments
382,812 jobs
\$75.3 billion in output
- Private hospitals
330,057 jobs
\$49.0 billion in output
- Full-service restaurants
295,539 jobs
\$13.3 billion in output



Results: DB Pensions Support \$189.7 Billion in Tax Revenue

Table 6. **DB Pensions Support \$110.4 Billion in Federal Tax Revenue**

	State and Local Pensions	Federal Pensions	Private Pensions	Federal Tax Revenue*
Taxes Paid by Beneficiaries on Benefits	\$10.6 billion	\$3.3 billion	\$7.9 billion	\$21.8 billion
Tax Revenue Resulting from Retiree Expenditures	\$43.1 billion	\$13.4 billion	\$32 billion	\$88.6 billion
Total Federal Tax Revenue Impact*	\$53.7 billion	\$16.7 billion	\$39.9 billion	\$110.4 billion

*Totals may not add up exactly due to rounding.

Table 7. **DB Pensions Support \$79.3 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	\$10.3 billion	\$3.2 billion	\$7.7 billion	\$21.1 billion
Tax Revenue Resulting from Retiree Expenditures	\$28.3 billion	\$8.8 billion	\$21 billion	\$58.2 billion
Total State and Local Tax Revenue Impact*	\$38.6 billion	\$12 billion	\$28.7 billion	\$79.3 billion

*Totals may not add up exactly due to rounding.



Results: National Pension Expenditure Multiplier

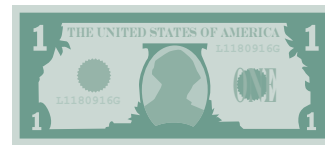
What is the total economic impact of each dollar paid out in pension benefits?

Pension Expenditure Multiplier



\$1.00

pension benefits paid to
retirees with DB pension income

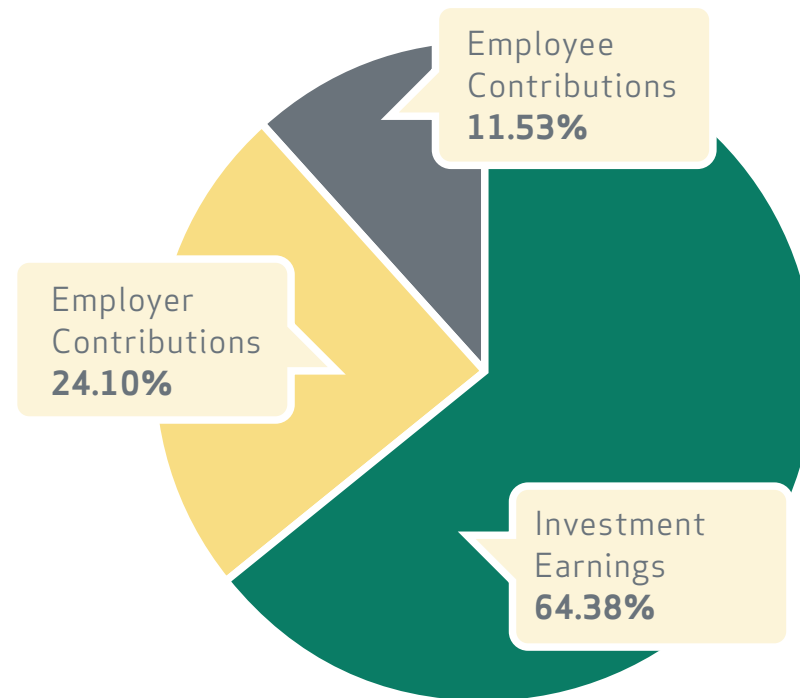


\$2.21

total output



Shared Financing of State and Local Pension Plans, 1993-2014



Note: Author's analysis of data from U.S. Census Bureau.



Why This Data Point Is Important

- » NIRS public opinion research tells us that only one-fourth of Americans understand that taxpayers pay less than 25% of the cost of public pension benefits.
- » When cost sharing is explained four out of ten respondents who did not know the taxpayers' share of public pension costs paid would be more supportive of public pension knowing taxpayers pay for only a small part of the cost.



Results: National Taxpayer Investment Factor for Public Plans

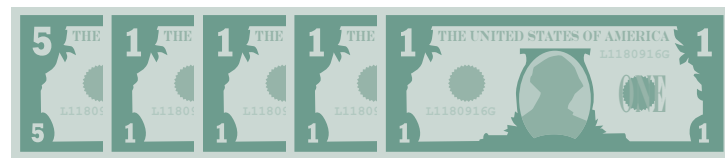
What is the “return” on each dollar taxpayers “invest” in state and local pension plans?

Taxpayer Investment Factor*



\$1.00

contributed by taxpayers to
state and local pensions over 30 years



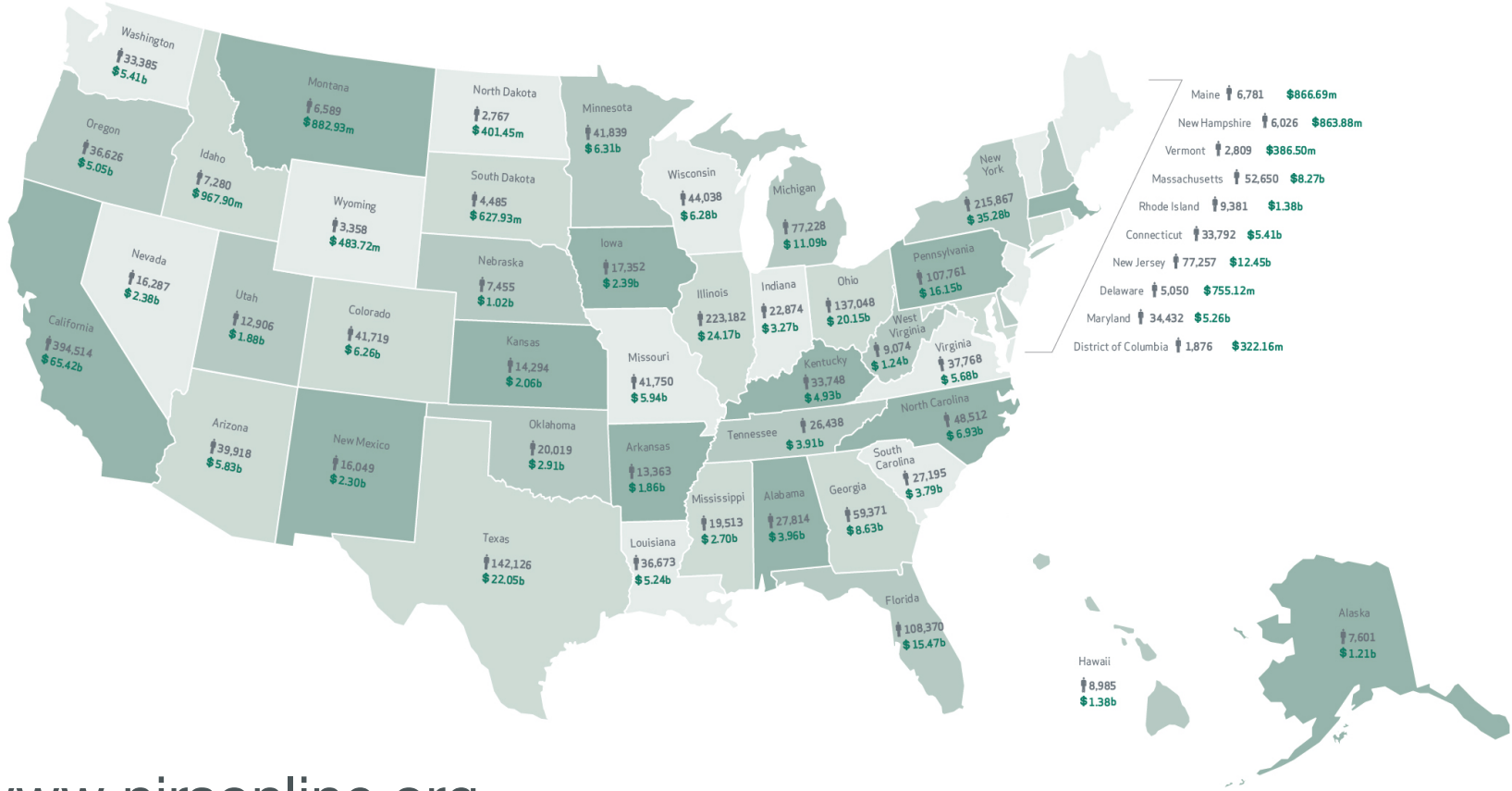
\$9.19

total output



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



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State Fact Sheets available at www.nirsonline.org

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Key Findings

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

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...

- 146,387 jobs that paid \$7.5 billion in wages and salaries
- \$23.7 billion in total economic output
- \$3.0 billion in federal, state, and local tax revenues

...in the state of Texas.

Each dollar paid out in pension benefits supported \$1.51 in total economic activity in Texas.

Each dollar "invested" by Texas taxpayers in these plans supported \$6.91 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 Texas communities and the state economy. In 2012, 552,187 residents of Texas received a total of \$12.1 billion in pension benefits from state and local pension plans.



The average pension benefit received was \$1,829 per month or \$21,945 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, 21.80% of Texas's pension fund receipts came from employer

contributions, 16.09% from employee contributions, and 62.11% 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 146,387 jobs in the state. The total income to state residents supported by pension expenditures was \$7.5 billion.

To put these employment impacts in perspective, in 2012 Texas's unemployment rate was 6.8%. The fact that DB pension expenditures supported 146,387 jobs is significant, as it represents 1.2 percentage points in Texas's labor force.

Economic Impact

State and local pension funds in Texas and other states paid a total of \$12.1 billion in benefits to Texas residents in 2012. Retirees' expenditures from these benefits supported a total of \$23.7 billion in total economic output in the state, and \$14.0 billion in value added in the state.

\$9.0 billion in direct economic impacts were supported by retirees' initial expenditures. An additional \$8.8 billion in indirect impact resulted when these businesses purchased additional goods and services. \$5.9 billion in induced impacts occurred when workers employed by businesses as a result of the direct and indirect impacts made expenditures.

Total Economic Impact \$23.7 billion

**DIRECT
IMPACT**
\$9.0 billion

**INDIRECT
IMPACT**
\$8.8 billion

**INDUCED
IMPACT**
\$5.9 billion

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Pensionomics 2014: Measuring the Economic Impact of DB Pension Expenditures

TEXAS

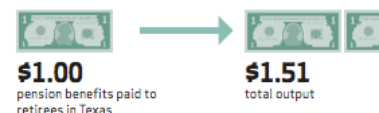
Economic Multipliers

Taxpayer Contribution Factor*



Each \$1 in taxpayer contributions to Texas's state and local pension plans supported \$6.91 in total output in the state. This reflects the fact that taxpayer contributions are a minor source of financing for retirement benefits—investment earnings and employee contributions finance the lion's share.

Pension Benefit Multiplier



Each \$1 in state and local pension benefits paid to Texas residents ultimately supported \$1.51 in total output in the state. This "multiplier" incorporates the direct, indirect, and induced impacts of retiree spending, as it ripples through the state economy.

*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 Texas residents supported a total of \$3.0 billion in revenue to federal, state, and local governments. Taxes paid by retirees and beneficiaries directly out of pension payments totaled \$96.9 million. Taxes attributable to direct, indirect and induced impacts accounted for \$2.9 billion in tax revenue.

Federal Tax	\$1.8 billion
State/Local Tax	\$1.2 billion
Total	\$3.0 billion

Economic Impacts by Industry Sector

The economic impact of state and local pension benefits was broadly felt across various industry sectors in Texas. 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	12,528	\$283,151,464	\$431,637,768	\$743,435,518
Real Estate Establishments	7,814	\$172,677,356	\$787,542,678	\$1,005,861,364
Physicians, Dentists, and other Health Practitioners	6,664	\$594,836,456	\$606,906,093	\$878,248,706
Private Hospitals	5,718	\$456,370,760	\$502,871,180	\$835,176,997
Wholesale Trade Businesses	4,113	\$382,483,017	\$669,888,234	\$965,918,729
Retail Stores - General Merchandise	3,686	\$108,787,598	\$184,746,972	\$226,624,931
Nursing and Residential Care Facilities	3,550	\$119,297,145	\$135,872,653	\$201,196,779
Retail Stores - Food and Beverage	3,540	\$110,983,962	\$152,247,576	\$210,721,100
Home health care services	3,052	\$77,855,595	\$82,865,628	\$122,058,217
Securities, Commodity Contracts, and Investments	2,765	\$114,682,839	\$100,207,402	\$402,454,395

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.

Results: Economic Impacts by State

Expenditures from public pension benefits in New York supported in 2014...

- **Over \$35 billion** in economic output in NY
- **Nearly 216,000 jobs** that paid over **\$12.5 billion** in income
- **\$21.8 billion** in value added in New York
- **\$8.1 billion** in federal, state, and local tax revenue



State Economic Impacts: CalPERS

November 2014

The Impact of Annuity Payments by the Teacher Retirement System on Texas and Local Areas Within the State: 2014 Update



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CalPERS benefit payments and investments in California are **essential** to the state's economy.

Benefit impacts:

\$1 → \$9.64

every taxpayer dollar contributed to CalPERS returns \$9.64 in economic activity

page 6

Investment impacts:

\$25.7 billion

CalPERS investments in California

page 12

\$30.9 billion

economic activity created by CalPERS benefit payments

129,000

real estate jobs supported by CalPERS investments



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Impact of CalPERS' Investments

Investment Impacts

\$27.3 billion

CalPERS investments
in California

145,000

California jobs supported by
CalPERS real estate portfolio

CalPERS Economic Impacts in California

July 2017

This study reflects impacts for the fiscal year ending June 30, 2016.



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Pensionomics In Local Media

Report Gauges Pensions' Effect on Ohio, National Economies

Public and private pensions provide \$6 billion-plus every year in income to Ohio retirees, supporting 137,000 jobs and \$20 billion in economic output. Source: The Hannah Report



The Hannah Report

Ohio's most comprehensive daily legislative and government news



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Communicating the Results

- Excellent opportunity to **educate** stakeholders about retirement savings crisis, retirement gender gap.
- **Localize** the report with state/local specifics.
- **Humanize** the data where possible with real people examples.
- **Use variety of channels** to share information – web site, social media, email, direct outreach to stakeholders, policymakers, speeches, letters to editor.



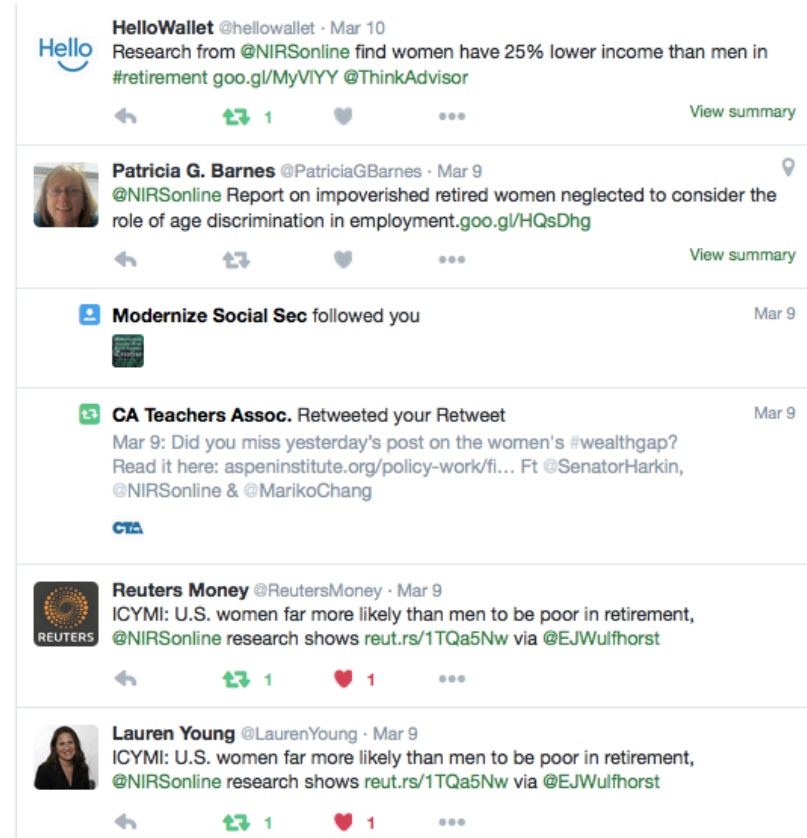
Communicating the Results

Localizing this data with businesses in your community

- **Do you have a Howell's Grocery?**



Leverage Social Media



Localize the Key Takeaways

- » \$1 in DB benefits supported \$2.21 in output.
- » \$1 of taxpayer funds supported \$9.19 in output.
- » In 2014, spending from public and private pension benefits supported...
 - **\$1.2 trillion** in economic output nationwide
 - **7 million jobs** that paid **\$354.8 billion** in income
 - **\$190 billion** in federal, state, and local tax revenue.



Questions?



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