



NATIONAL INSTITUTE ON Retirement Security

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Measuring the Economic Impact of DB Pension Expenditures

Overview

Expenditures made by retirees of state and local government provide a steady economic stimulus to Arkansas communities and the state economy. In 2018, 107,326 residents of Arkansas received a total of \$2.1 billion in pension benefits from state and local pension plans.

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



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.

The average pension benefit received was \$1,645 per month or \$19,742 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.

In 2018, expenditures stemming from state and local pensions supported... Between 1993 and 2018, 25.63% of Arkansas's pension fund receipts came from employer contributions, 6.19% from employee contributions, and 68.18% from investment earnings.* Earnings on investments and employee contributions—not taxpayer based contributions—have historically made up the bulk of pension fund receipts.

 17,883 jobs that paid \$792.7 million in wages and salaries

Impact on Jobs and Incomes

• \$2.9 billion in total economic output

Retiree expenditures stemming from state and local pension plan benefits supported 17,883 jobs in the state. The total income to state residents supported by pension expenditures was \$792.7 million.

 \$447.4 million in federal, state, and local tax revenues To put these employment impacts in perspective, in 2018 Arkansas's unemployment rate was 3.6%. The fact that DB pension expenditures supported 17,883 jobs is significant, as it represents 1.42 percentage points in Arkansas's labor force.

... in the state of Arkansas.

Economic Impact

Each dollar paid out in pension benefits supported \$1.35 in total economic activity in Arkansas.

State and local pension funds in Arkansas and other states paid a total of \$2.1 billion in benefits to Arkansas residents in 2018. Retirees' expenditures from these benefits supported a total of \$2.9 billion in total economic output in the state, and \$1.5 billion in value added in the state.

Each dollar "invested" by Arkansas taxpayers in these pension plans supported \$5.25 in total economic activity in the state. \$1.3 billion in direct economic impacts were supported by retirees' initial expenditures. An additional \$925.0 million in indirect impact resulted when these businesses purchased additional goods and services. \$597.7 million in induced impacts occurred when workers employed by businesses as a result of the direct and indirect impacts made expenditures.

Total Economic Impact \$2.9 billion -

DIRECT IMPACT \$1.3 billion INDIRECT IMPACT \$925.0 million INDUCED IMPACT \$597.7 million

Economic Multipliers



Each \$1 in taxpayer contributions to Arkansas's state and local pension plans supported \$5.25 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 Arkansas residents ultimately supported \$1.35 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.

Impact on Tax Revenues

State and local pension payments made to Arkansas residents supported a total of \$447.4 million in revenue to federal, state, and local governments. Taxes paid by retirees and beneficiaries directly out of pension payments totaled \$180.7 million. Taxes attributable to direct, indirect, and induced impacts accounted for \$266.7 million in tax revenue.

| Federal Tax | \$202.1 million | |
|-----------------|-----------------|--|
| State/Local Tax | \$245.3 million | |
| Total | \$447.4 million | |

Economic Impacts by Industry Sector

The economic impact of state and local pension benefits was broadly felt across various industry sectors in Arkansas. 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 |
|--|-------------------------------|------------------------|-----------------------|---------------|
| Hospitals | 998.20 | \$66,532,755 | \$77,998,874 | \$161,710,946 |
| Limited-service restaurants | 880.00 | \$16,057,495 | \$27,363,423 | \$64,144,966 |
| Full-service restaurants | 747.90 | \$15,868,661 | \$24,595,399 | \$46,387,416 |
| Offices of physicians | 666.70 | \$66,244,234 | \$79,843,941 | \$119,570,298 |
| Retail - General merchandise stores | 530.70 | \$16,344,381 | \$25,781,036 | \$40,302,958 |
| Nursing and community care facilities | 470.00 | \$15,977,030 | \$17,911,904 | \$33,958,555 |
| Other real estate | 405.70 | \$9,674,572 | \$23,205,513 | \$70,853,589 |
| Offices of other health practitioners | 390.40 | \$19,860,945 | \$18,316,614 | \$27,394,350 |
| Retail - Food and beverage stores | 389.80 | \$11,553,892 | \$18,082,172 | \$29,377,138 |
| Retail - Miscellaneous store retailers | 333.10 | \$5,841,550 | \$8,306,966 | \$14,572,733 |

^{*}Caution should be used in interpreting these numbers. See the Technical Appendix of the full Pensionomics report for details.