

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 Rhode Island.

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...

- 10,377 jobs that paid \$542.3 million in wages and salaries
- \$1.7 billion in total economic output
- \$330.9 million in federal, state, and local tax revenues

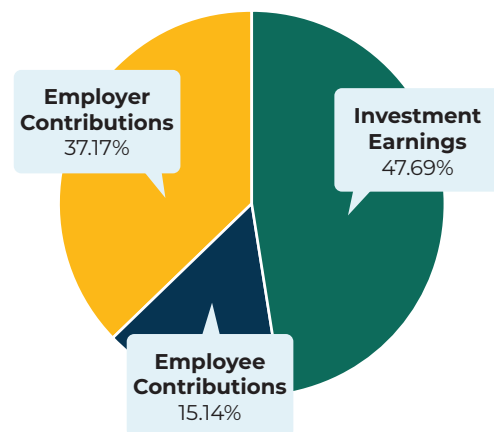
... in the state of Rhode Island.

Each dollar paid out in pension benefits supported \$1.34 in total economic activity in Rhode Island.

Each dollar "invested" by Rhode Island taxpayers in these pension plans supported \$3.61 in total economic activity in the state.

Overview

Expenditures made by retirees of state and local government provide a steady economic stimulus to Rhode Island communities and the state economy. In 2018, 37,248 residents of Rhode Island received a total of \$1.3 billion in pension benefits from state and local pension plans.



The average pension benefit received was \$2,807 per month or \$33,679 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, 37.17% of Rhode Island's pension fund receipts came from employer contributions, 15.14% from employee contributions, and 47.69% 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 10,377 jobs in the state. The total income to state residents supported by pension expenditures was \$542.3 million.

To put these employment impacts in perspective, in 2018 Rhode Island's unemployment rate was 4.0%. The fact that DB pension expenditures supported 10,377 jobs is significant, as it represents 2.09 percentage points in Rhode Island's labor force.

Economic Impact

State and local pension funds in Rhode Island and other states paid a total of \$1.3 billion in benefits to Rhode Island residents in 2018. Retirees' expenditures from these benefits supported a total of \$1.7 billion in total economic output in the state, and \$991.3 million in value added in the state.

\$826.9 million in direct economic impacts were supported by retirees' initial expenditures. An additional \$458.1 million in indirect impact resulted when these businesses purchased additional goods and services. \$400.4 million in induced impacts occurred when workers employed by businesses as a result of the direct and indirect impacts made expenditures.



Economic Multipliers

Taxpayer Contribution Factor*



\$1.00

contributed by taxpayers to Rhode Island pensions over 30 years



\$3.61

total output

Each \$1 in taxpayer contributions to Rhode Island's state and local pension plans supported \$3.61 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



\$1.00

pension benefits paid to retirees in Rhode Island



\$1.34

total output

Each \$1 in state and local pension benefits paid to Rhode Island residents ultimately supported \$1.34 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 Rhode Island residents supported a total of \$330.9 million in revenue to federal, state, and local governments. Taxes paid by retirees and beneficiaries directly out of pension payments totaled \$99.4 million. Taxes attributable to direct, indirect, and induced impacts accounted for \$231.5 million in tax revenue.

Federal Tax	\$160.8 million
State/Local Tax	\$170.1 million
Total	\$330.9 million

Economic Impacts by Industry Sector

The economic impact of state and local pension benefits was broadly felt across various industry sectors in Rhode Island. 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	607.20	\$46,838,930	\$60,016,289	\$110,893,554
Full-service restaurants	533.70	\$14,736,084	\$23,013,464	\$38,651,830
Limited-service restaurants	423.40	\$10,329,296	\$16,956,155	\$34,714,661
Other real estate	327.70	\$7,139,683	\$30,166,742	\$68,610,502
Offices of physicians	317.30	\$33,588,845	\$40,885,871	\$59,783,581
Nursing and community care facilities	268.10	\$12,026,006	\$15,360,393	\$24,538,948
Retail - Food and beverage stores	265.40	\$9,383,974	\$12,680,964	\$20,370,214
All other food and drinking places	247.60	\$7,405,351	\$9,994,295	\$15,458,585
Offices of other health practitioners	205.70	\$11,238,160	\$10,621,855	\$15,416,653
Retail - General merchandise stores	196.10	\$7,511,557	\$10,089,265	\$15,451,035

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.