

“Pensionomics” and “A Better Bang for the Buck”

**Testimony of Ilana Boivie, Policy Analyst
To the House Labor and Commerce Committee
Legislature of the State of Alaska
March 18, 2009**



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Retirement Security**

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- Contribute to informed policy making by fostering a deep understanding of the value of retirement security to employees, employers, and the economy as a whole.
- Research, education, and outreach programs that are national in scope.



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- Members include:
 - Employee benefit plans
 - State/local agencies that manage retirement plans
 - Trade associations
 - Financial services firms
 - Other retirement providers





Pensionomics

Measuring the Economic Impact of State and Local Pension Plans

by Ilana Boivie and Beth Almeida

February 2009

Why We Did this Study

- Measure the “economic footprint” of state and local pension plans, both nationally and within states.
- DB plans act as an “automatic stabilizer” for the economy
 - Even in tough times, retirees with a reliable pension can maintain spending on basic needs
- Get a sense of how much of a stabilizing effect state and local pensions may have on the U.S. economy and state economies.



What We Found - Nationally

- In 2006, expenditures made out of state and local retirement benefits supported...
 - **2.5 million jobs** that paid **\$92 billion** in income
 - **\$358 billion** in economic output nationwide
 - **\$57 billion** in federal, state, and local tax revenue



What We Found - Alaska

- In 2006, expenditures made out of state and local retirement benefits supported...
 - **6,270 jobs** that paid **\$385 million** in income
 - **\$1 billion** in economic output statewide
 - **\$155 million** in federal, state, and local tax revenue



What We Found - Alaska

- For every dollar paid out in benefits, \$1.25 in total economic activity was supported in the state.

Pension Benefit Multiplier



\$1.00

pension benefits paid to
retirees in Alaska



\$1.25

total economic activity



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What We Found - Alaska

- For every dollar contributed by taxpayers, \$6.35 in economic activity was supported in the state.



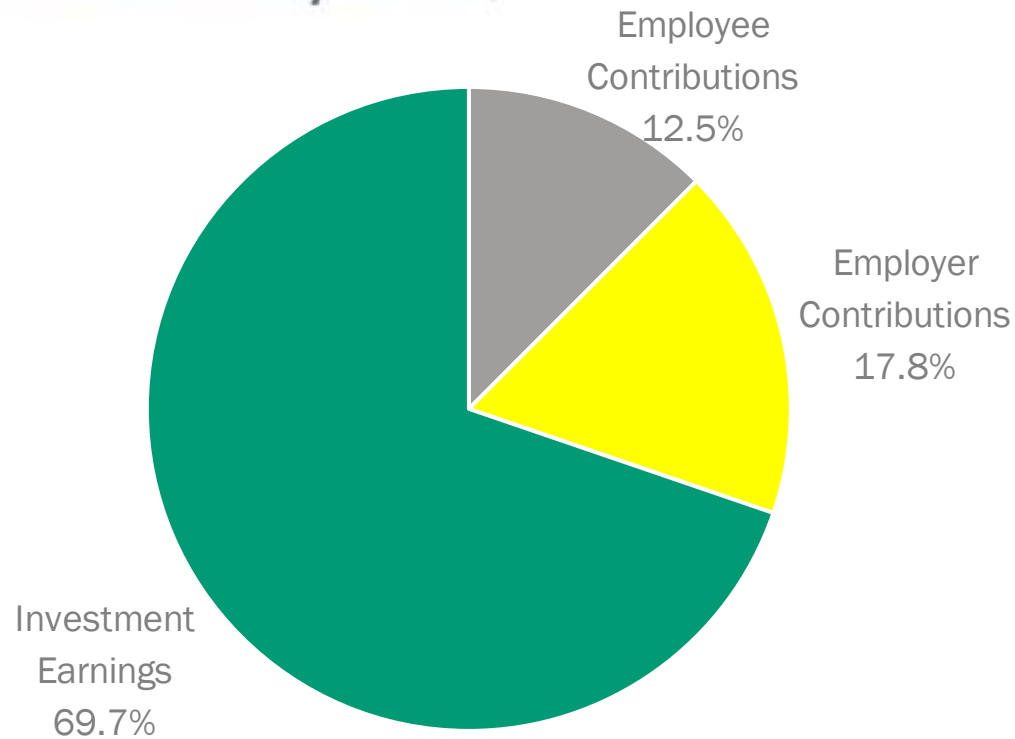
Overview of State and Local DB Pensions in Alaska

- According to the U.S. Census Bureau, close to 35,000 Alaskans received pension benefits from state and local pensions in 2006.
- Retired Alaskans received roughly \$819 million in benefit payments in 2006.
- The average pension was \$1,953 per month, or \$23,440 per year.



Financing of State and Local Pension Plans in Alaska

Aggregate Contributions by Source,
1993-2006




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Figure 2:
The Multiplier Effect: How Spending Ripples Through the Economy, Supporting Jobs and Incomes in the Process



 A retired schoolteacher...

\$  ...uses her pension money to buy a car.

\$\$  As a result of that purchase, the owner of the car dealership, the car salesman, and each of the companies involved in the production of the car all see an increase in income, and spend that additional income.

\$\$\$  These companies hire additional employees as a result of this increased business, and those new employees spend their paychecks in the local economy.

Methodology

What We Did

- Began with benefit payment data from the U.S. Census Bureau's State & Local Government Employee Retirement System survey.
- Estimated taxes paid out of benefits using data from CBO and Edwards and Wallace (2004).
- Adjusted Census benefit payment data to account for migration of retirees from one state to another.
- Using IMPLAN input-output modeling software, estimated the economic impacts of retiree expenditures and taxes.



What is IMPLAN?

- IMPLAN is an input-output modeling software originally 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.
- IMPLAN was used to estimate the following economic impacts: jobs, incomes, value added, total output, and tax revenue.



Alaska Results: Total Economic Impact



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Alaska Results: Tax Revenue Impact

Federal Tax	87.5 million
State/Local Tax	67.8 million
Other Corporate Taxes	0.2 million
Total	\$155.5 million



Alaska Results: Economic Impacts by Industry

- Industries with most jobs supported
 - Health Care and Social Assistance: 1,354 jobs
 - Retail Trade: 1,331 jobs
 - Accommodation and Food Services: 839 jobs
- Industries where greatest economic impact felt
 - Health Care and Social Assistance: \$119 million
 - Retail Trade: \$97 million
 - Real Estate, Rental, Leasing: \$51 billion



Alaska Results: Economic Impacts by Industry

Industry	Employment Impact (# Jobs)	Value Added Impact (\$ millions)	Income Impact (\$ millions)	Output Impact (\$ millions)
Health Care and Social Assistance	1,354	\$75.0	\$74.2	\$119.1
Retail Trade	1,331	64.4	50.9	97.0
Accommodation and Food Services	839	26.7	23.8	50.0
Other Services (Except Public Administration)	479	14.2	13.3	27.1
Real Estate and Rental and Leasing	452	33.8	28.2	50.8
Professional, Scientific, and Technical Services	229	11.8	11.5	23.2
Arts, Entertainment, and Recreation	229	6.2	5.6	10.8
Finance and Insurance	227	24.2	23.3	43.9
Public Administration	196	10.1	10.1	20.7
Transportation and Warehousing	187	11.4	10.8	22.0



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Alaska Results: Pension Expenditure Multiplier

- What is the total economic impact of each dollar paid out in pension benefits?
- An expenditure multiplier measures the size of the “ripple effect” of retirees’ expenditures



Alaska Results: Taxpayer Contribution Factor

- What is the “return” on each dollar taxpayers “invest” in state/local pension plans?
- Because employee contributions and investment earnings finance most of the benefits, this factor is large...



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Conclusions

- State and local pension plans have a large economic footprint in the U.S. and Alaska.
- State and local pensions have significant ripple effects – one retiree’s spending becomes someone else’s income.
- State and local pensions have sizable multipliers – up-front investment of taxpayer dollar goes a long way.



Conclusions

- State and local pensions do more than provide a critical source of reliable income for 7.3 million retired Americans and 35,000 retired Alaskans.
- They support 2.5 million American jobs and \$358 billion in national economic activity.
- They support 6,270 Alaskan jobs and \$1 billion in economic activity.
- Pensions are “automatic stabilizers” – retirees can continue to spend on basic needs, providing important stimulus during these tough times.





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A Better Bang for the Buck

The Economic Efficiencies of Defined Benefit Pension Plans

by Beth Almeida and William B. Fornia, FSA

August 2008

Research Question: Why We Did this Study

- Evaluate claims that “DC plans save money”
- How do the costs of delivering retirement benefits through each type of plan compare?
 - Apples-to-apples comparison
 - Calculate the cost to deliver the same level of retirement benefits
 - DB plan
 - DC plan



Results:

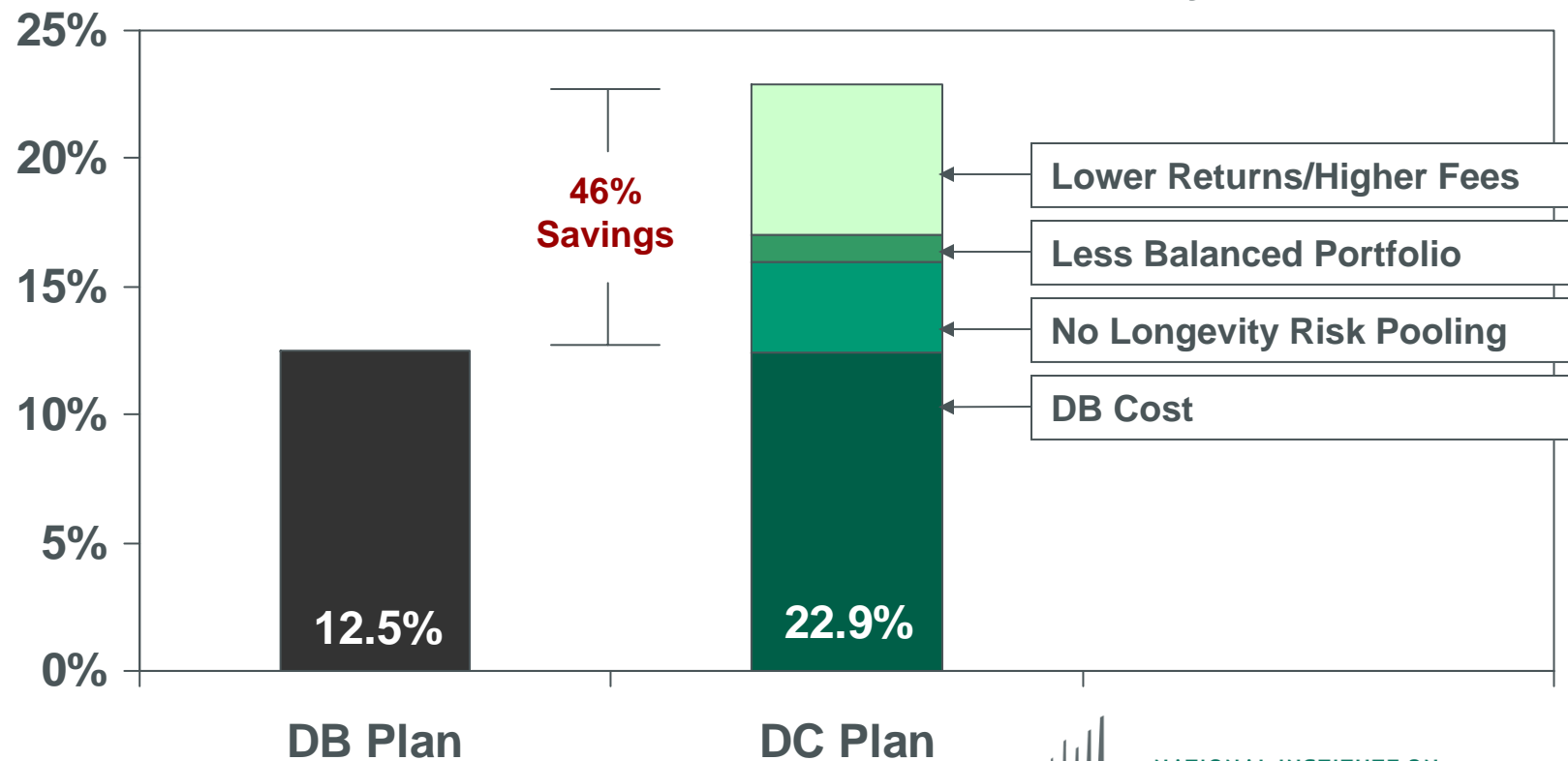
What We Found

- The DB approach saves money compared to the DC approach. Three reasons ...
 1. DB pension plans pool “longevity risks”
 2. DB pension plans can maintain a better diversified portfolio because, unlike individuals, they do not age
 3. DB pension plans achieve better investment returns because of professional asset management and lower fees



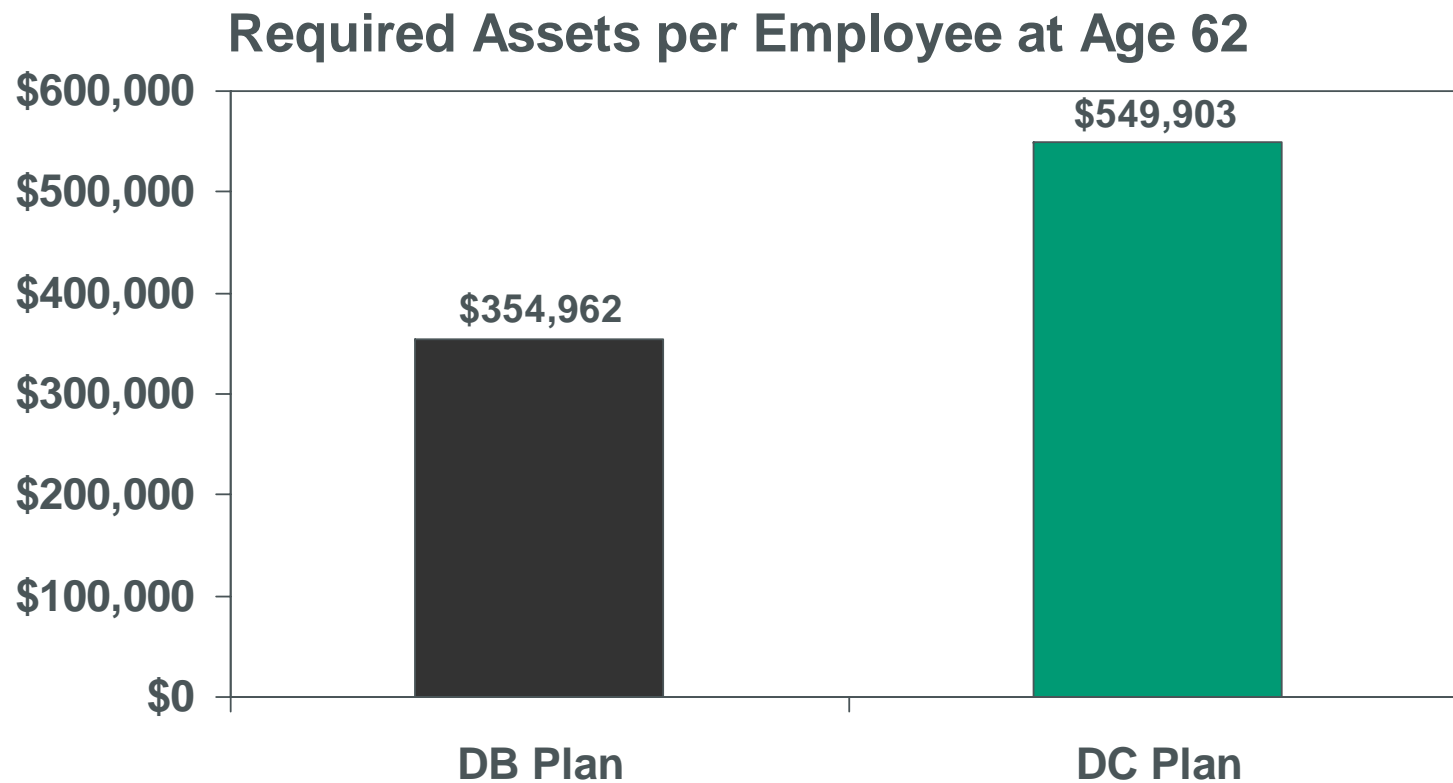
DB Plan Can Deliver Same Benefit at About Half the Cost of DC Plan

Cost of DB and DC Plan as % of Payroll



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DB Plan Can Do More with Less



Methodology: What We Did

- We model a population of 1,000 female teachers who work for 30 years - their final salary is \$50,000
- We define a “target” retirement benefit - about \$2,200/month – at age 62, which is adjusted for inflation
- We calculate the cost to fund this benefit through a DB plan structure, then through a DC plan structure



Conclusions

- It's important to separate the question of benefit level from the issue of retirement system efficiency
- DB plans have built-in economic efficiencies – provide a “better bang for the buck” for taxpayers/employees
- Decision makers should continue to carefully evaluate claims that “DC plans will save money”





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