

ILLINOIS

Pensionomics:

Measuring the Economic Impact of State and Local Pension Plans

Key Findings

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

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*.

Expenditures stemming from state and local pensions supported...

- 83,611 jobs that paid \$5.5 billion in wages and salaries
- \$12.9 billion in total economic output
- \$2.0 billion in federal, state, and local tax revenues

... in the state of Illinois.

Each dollar paid out in pension benefits supported \$1.50 in total economic activity in Illinois.

Each dollar "invested" by Illinois taxpayers in these plans supported \$5.62 in total economic activity in the state.

Overview

Expenditures made by retirees of state and local government provide a steady economic stimulus to Illinois communities and the state economy. In 2006, 357,067 residents of Illinois received a total of \$8.62 billion in pension benefits from state and local pension plans, with \$8.51 billion paid from plans within the state and the remainder originating from plans in other states.

The average pension benefit received was \$2,012 per month or \$24,149 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.

Impact on Jobs and Incomes

Retiree expenditures stemming from state and local pension plan benefits supported 83,611 jobs in the state. The total income to state residents supported by pension expenditures was \$5.5 billion.

Of this, the greatest share, \$3.1 billion, was comprised of employee compensation (wages and salaries). Proprietors' income (self-employment income) represented \$389.2 million, and other property income (including payments from interest, rent, royalties, profits and dividends) totaled \$2.1 billion.

Economic Impact

State and local pension funds in Illinois and other states paid a total of \$8.62 billion in benefits to Illinois residents in 2006. Retirees' expenditures from these benefits supported a total of \$12.9 billion in total economic output in the state, and \$6.1 billion in value added in the state.

\$8.3 billion in direct economic impacts were supported by retirees' expenditures on goods and services from businesses in the state. An additional \$2.2 billion in indirect economic impact resulted when these businesses purchased additional goods and services, generating additional income in the local economy. \$2.4 billion in induced impacts occurred when employees hired by businesses as a result of the direct and indirect impacts made expenditures, supporting even more additional income.

————— Total Economic Impact **12.9 billion** —————



Economic Multipliers

Taxpayer Contribution Factor*



\$1.00

contributed by Illinois taxpayers to state and local pensions



\$5.62

total economic activity

Each \$1 in taxpayer contributions to Illinois's state and local pension plans supported \$5.62 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 Illinois



\$1.50

total economic activity

Each \$1 in state and local pension benefits paid to Illinois residents ultimately supported \$1.50 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 this number, because the Census data used reflect the taxable status of contributions only; because employee contributions may be reported as taxpayer contributions, the multiplier here may be underestimated.

Impact on Tax Revenues

State and local pension payments made to Illinois residents supported approximately \$2.0 billion in revenue to federal, state and local governments. Taxes paid by retirees and beneficiaries directly out of pension payments totaled \$301.8 million. Taxes attributable to direct, indirect and induced expenditures accounted for \$1.7 billion in tax revenue.

Federal Tax	1,277.0 million
State/Local Tax	706.0 million
Other Corporate Taxes	3.1 million
Total	\$1,986.1 million

Economic Impacts by Industry Sector

The economic impact of state and local pension benefits was broadly felt across various industry sectors in the state. The ten industry sectors with the largest employment impacts are presented in the table below.

Industry	Employment Impact (# Jobs)	Value Added Impact (\$ millions)	Income Impact (\$ millions)	Output Impact (\$ millions)
Health Care and Social Assistance	19,490	\$959.7	\$948.4	\$1,574.8
Retail Trade	16,968	746.3	590.5	1,139.4
Accommodation and Food Services	8,521	243.7	216.5	476.3
Other Services (Except Public Administration)	6,967	223.1	208.3	415.6
Finance and Insurance	4,008	535.1	512.0	913.9
Administrative and Waste Services*	3,985	151.3	171.6	238.0
Professional, Scientific, and Technical Services	3,419	305.1	298.8	514.8
Real Estate and Rental and Leasing	3,333	496.5	413.6	736.1
Wholesale Trade	3,233	431.2	336.8	639.5
Transportation and Warehousing	2,723	165.5	158.7	301.8

*The North American Industry Classification System classifies this industry as Administrative and Support and Waste Management and Remediation Services.