From the National Conference on Public Employee Retirement Systems comes a 2018 study titled “Unintended Consequences: How Scaling Back Public Pensions Puts Government Revenues at Risk”.

Unintended consequences often flow from policy actions that are made with short-term pressures in mind. There is a real risk that reducing or even dismantling public pension benefits will ultimately backfire. In this installment of ongoing research on the impact of public pensions on the U.S. economy, NCPERS set out to quantify that risk.

The question we asked is this: How does the payment of defined pension benefits and the investment of pension assets impact state and local economies and revenue generation? It is common sense that consumer spending and investment grow the economy, which in turn grows tax revenues. We hear this all the time in the context of tax cuts. Yet opponents of public pensions seem to believe that pension spending and investment do not grow the economy. True, the pension money comes from taxpayers, but it should be understood that it is part of the compensation of workers providing public services. If these services were privatized, they would cost taxpayers more. The goal of private companies is to make profit. The goal of a public service is to ensure the public good. Pensions play an important role in the recruitment and retention of a quality public workforce to ensure our collective good.

Previous research has shown that pension beneficiaries bolster the economy by feeding resources back into local communities where they live, work, and spend their pension checks. However, research on how state economies and tax revenues grow when pension funds invest their assets does not currently exist. Our research fills this gap and is the first of its kind. We examine the broader question of state and local revenues generated by public pensions, and whether these revenues exceed taxpayer contributions.

Our original methodology draws on historical data from various public sources, including the U.S. Census Bureau, Bureau of Economic Analysis, and Bureau of Labor Statistics. These data span the years 1977 to 2016 in most instances. The analysis was done in three steps. First, we developed an econometric model to estimate the impact of investment of pension fund assets on state and local economies and revenues. Second, we estimated the impact of spending of pension checks by retirees on state and local economies and revenues. Third, we assessed whether revenues generated by public pensions exceed taxpayer contributions. If so, how much would taxpayers have to pay in additional taxes if public pensions were dismantled?

We measured the economy in terms of personal income. We found that the economy grows by $1,088 with the investment of each $1,000 of pension fund assets. This amount may seem small, but due to the size of the pension fund assets, $3.7 trillion in 2016, the effect on the economy and revenues is significant. The results show that investment of pension fund assets contributed $587.5 billion to the economy, which in turn yielded $125.7 billion in state and local revenues. Similarly, the results show that $303.1 billion paid to retirees in pension checks during 2016 contributed $757.8 billion to the economy and $151.9 billion to state and local revenues. Overall, when we add the impact of investment of assets and spending of pension checks by retirees, public pensions in 2016 contributed $1.3 trillion to the economy and $277.6 billion to state and local revenues.

Are public pension funds net revenue generators? The results show that in 2016 pension funds generated approximately $277.6 billion in state and local revenues. The taxpayer contribution to pension plans in the same year was $140.3 billion. In other words, pension funds generated $137.3

billion more in revenues than the taxpayer contribution. The state-by-state results indicate that pensions in 38 states had a positive impact on net revenues. In the remaining 12 states, either pensions were revenue neutral or taxpayer contributions were greatly subsidized by state and local revenues generated by public pensions.

The data that underpin our conclusions are a powerful rebuke to the argument that taxpayers cannot afford public pensions. The evidence we present here shows that if public pensions did not exist, the burden on taxpayers would rise by about $137.3 billion just to maintain the current level of services.

The implication of our findings is clear: Taxpayers cannot afford continued assaults on public pensions. Instead, policy makers must preserve and enhance public pensions, building on this time-honored method of ensuring a dignified retirement to provide retirement security for all.

Unintended Consequences: How Scaling Back Public Pensions Puts Government Revenues at Risk

The argument that taxpayers cannot afford public pensions has taken hold with an almost mythological force, seeping into public opinion as an accepted truth. Opponents of public pensions have advanced an us-versus-them storyline in their concerted efforts to undermine and ultimately dismantle public pensions. The fervor with which they argue their case underscores the ideological imperatives that drive them. Factual information, however, has been in short supply.

NCPERS has a long history of providing reliable and verifiable data and analysis on public pensions, which are fundamentally a long-term investment, not a short-term budget issue.

Using state and local data for the last quarter century, this study sets out to examine the following questions:

- How much state and local tax revenue is generated as a result of the mere existence of public pensions?
- Do these revenues exceed taxpayer contributions to public pensions?
- How much would taxpayers have to pay in additional taxes if public pensions were dismantled?

Our hypothesis is that public pensions are significant revenue generators. We also hypothesize that state and local revenues

generated by public pensions far exceed taxpayer contributions. If we continue to undermine public pensions, taxpayers will have to make up these revenues to maintain the current level of public services. The burden on taxpayers will increase if we make short-term decisions about these long-term investments.

Public pensions generate state and local revenues in two ways. First, when retirees spend their pension checks in local economies, the economy grows. When the economy grows, tax revenues grow. Second, when pension funds invest their assets in the economy, the economy and tax revenues grow. While invested assets flow into both national and international companies, significant economic and revenue impact accrues to individual states. It is logical to expect that the total state and local revenues generated by spending of retiree checks and investment of pension fund assets exceed taxpayer contributions in most states. In the remaining states, these revenues are likely to be almost the same as taxpayer contributions.

Policy makers are steadily seeking to undermine and even dismantle public pensions based on misleading information from opponents of public pensions. These opponents disseminate huge unfunded liability numbers by distorting various assumptions. They then compare the 30-year unfunded liability numbers with one-year state and local revenues instead of 30-year state and local revenues. They overlook the positive role pensions play in economic and revenue growth. In the end, they argue that taxpayers cannot afford public pensions. They propose that public pensions should be converted into do-it-yourself retirement savings plans or that benefits should be cut, and employee contributions increased. Policy makers do not recognize that dismantling public pensions would increase the tax burden on their constituents.

Policy makers' attacks on public pensions are also harming state and local economies. Our earlier study shows that dismantling public pensions increases economic inequities and slows down the economy. If public pensions were dismantled, our economy would suffer a loss of about $3 trillion by 2025. Policy makers need to consider the positive role public pensions play in economic and revenue growth. This study examines the revenue impact of pensions for each of the 50 states so that policy makers can see how much additional revenue they would have to generate if they stayed on a path to dismantling public pensions.

The study is divided into four sections. Section I examines the existing literature on pensions and economic and revenue growth. Section II describes the data and methodology. Section III presents results, and Section IV offers conclusions.

This study is found at:
http://www.ncpers.org/files/NCPERS%20Unintended%20Consequences%20Report_FINAL%20EDIT.pdf