

Public Retirement System Overview

TMRS Annual Training Seminar

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NATIONAL INSTITUTE ON
Retirement Security

Reliable Research. Sensible Solutions.

About NIRS

Who we are

- Non-partisan, non-profit research & education organization
- Based in Washington, DC
- Founded in 2007 by CII, NASRA, NCTR

What we do

- Conduct research on the role of pensions for...
 - Employees/retirees
 - Employers
 - Economy at large
- Educate media, policy-makers, other audiences

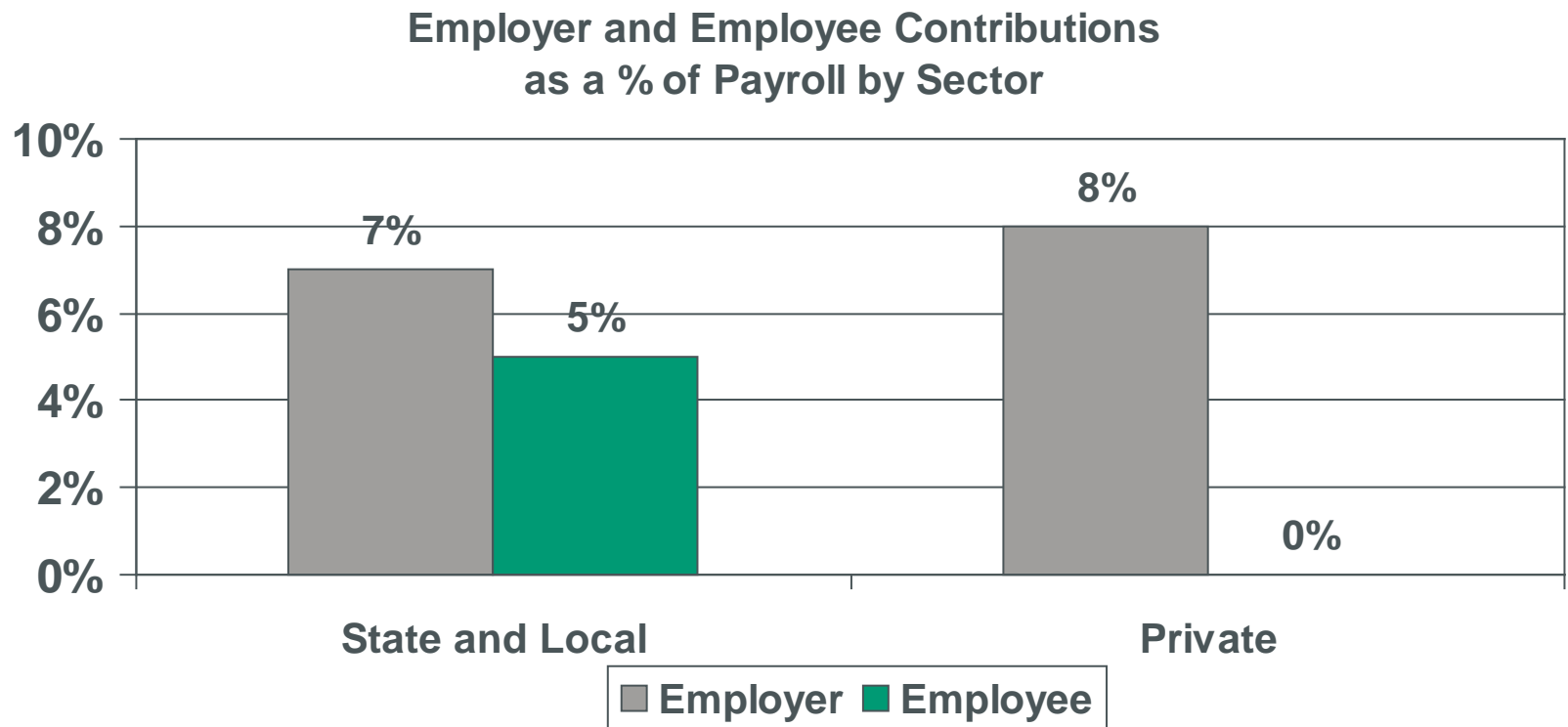


What Do Taxpayers, Elected Officials Want to Know about Public Pensions?

- ✓ Plans are fiscally responsible
- ✓ Plans are run prudently
- ✓ Plans deliver for retirees
- ✓ Plans provide benefits beyond just those paid to retirees

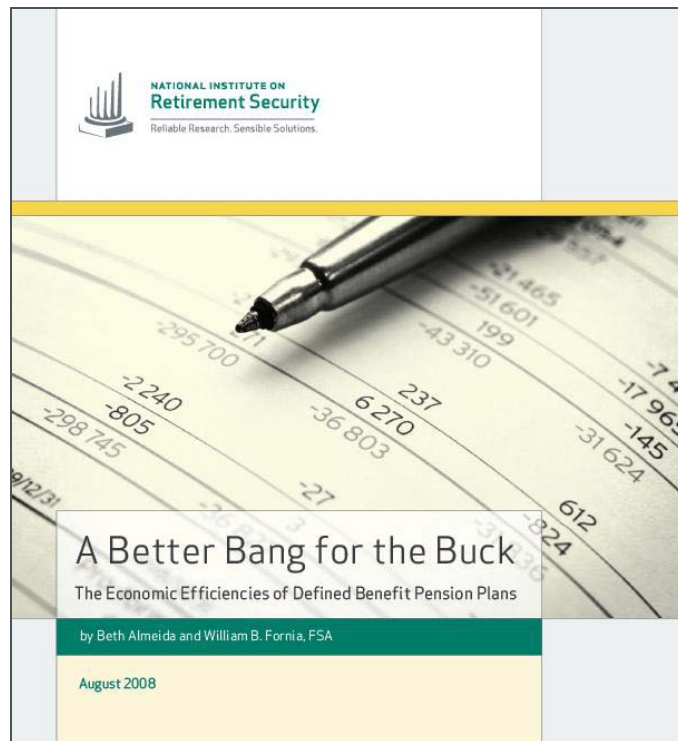


Public Pensions and Shared Responsibility



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A Better Bang for the Buck: The Economic Efficiencies of DBs



- Evaluate claims that “DC plans save money”
- How do the costs of delivering a target retirement benefit through each type of plan compare?
 - Apples-to-apples basis
 - DB plan
 - DC plan

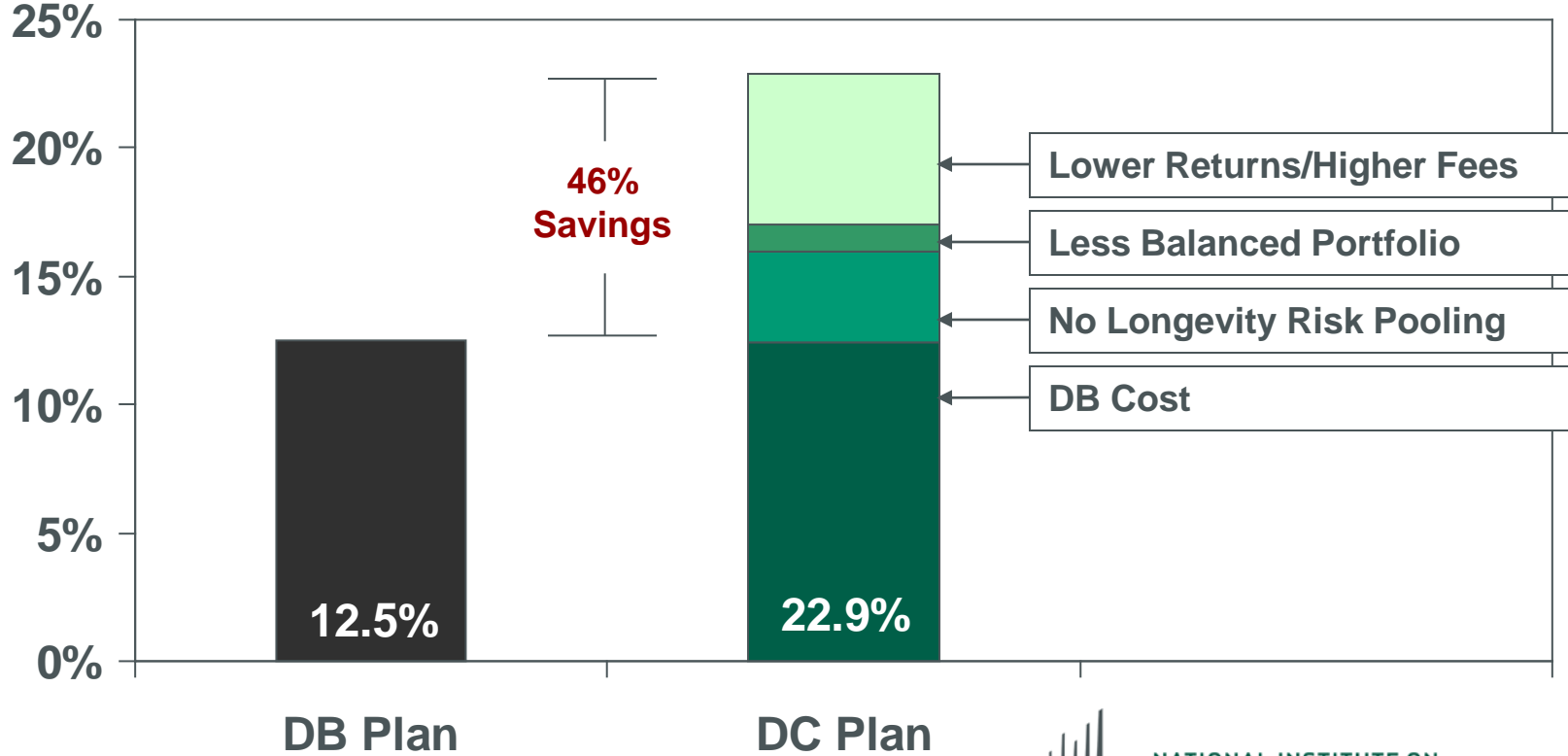
3 Reasons Why DB Plans Are More Economically Efficient

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

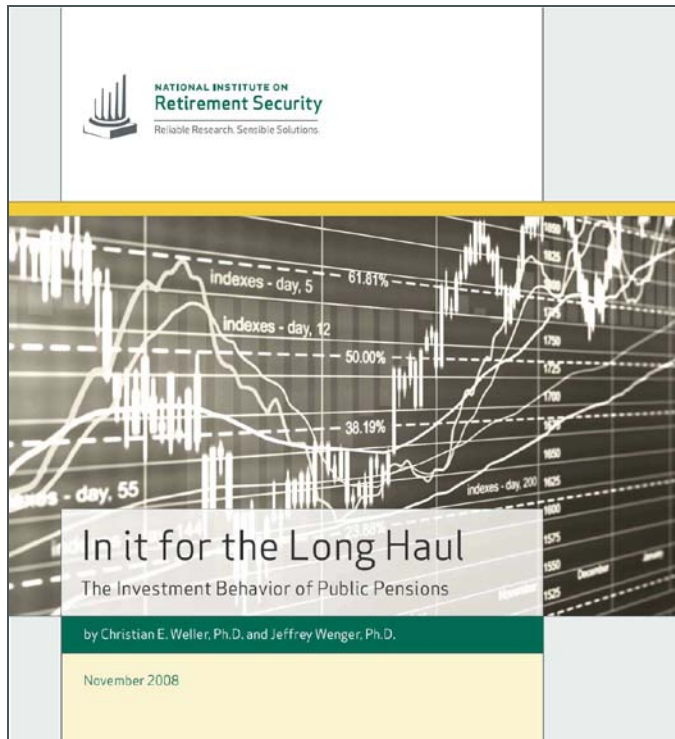


DB Plan Can Deliver Same Benefit at About Half the Cost of DC Plan

Cost of DB and DC Plan as % of Payroll



In it for the Long Haul: Investment Behavior of Public Pensions



- How do plans respond to market turmoil ...
- “Buckle down” with a focus on the long-term?
- “Double down” and take on more risk in an effort to chase returns?

In it for the Long Haul

Findings

- Public plans are prudent investors
 - Rebalance in response to price swings
 - Systematically follow practices of performance leaders
 - Avoid excessive risk-taking, moral hazard, employer conflicts
- If anything, the last crisis made public pension plans more cautious, not less cautious
- This suggests that plans are positioned to recover from current crisis



The Pension Factor: The Role of Pensions in Reducing Elder Hardships



- Does having a defined benefit (DB) really matter?
- How much does income from DB pensions protect older Americans from ...
 - Poverty
 - Material hardships
 - Reliance on public assistance

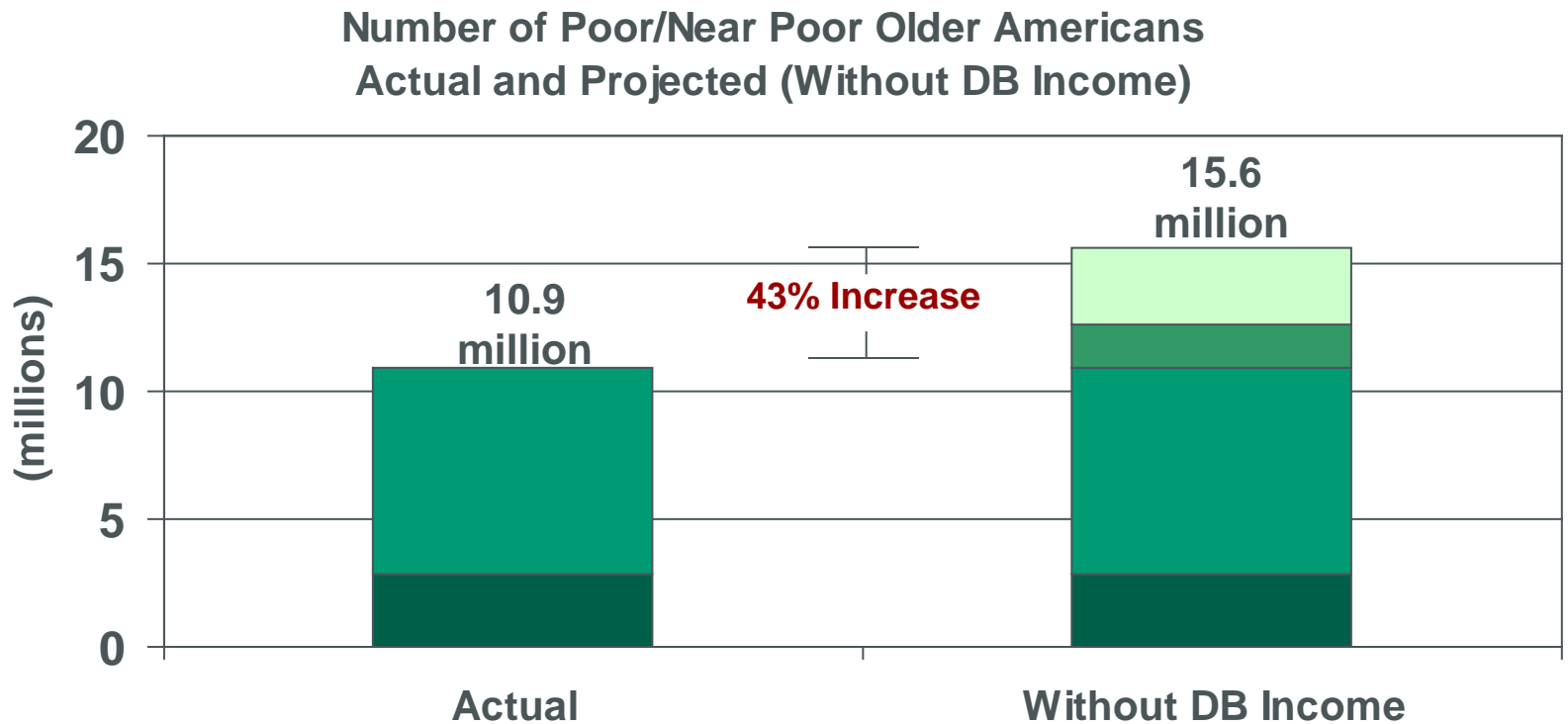
The Pension Factor

Findings

- DB pensions associated with ...
 - 4.7 million fewer households in poverty or near poverty
 - 560,000 fewer households with food hardships
 - 380,000 fewer households with shelter hardships
 - 320,000 fewer households with healthcare hardships
 - 1.35 million fewer households receiving public assistance, saving taxpayers \$7.3 billion

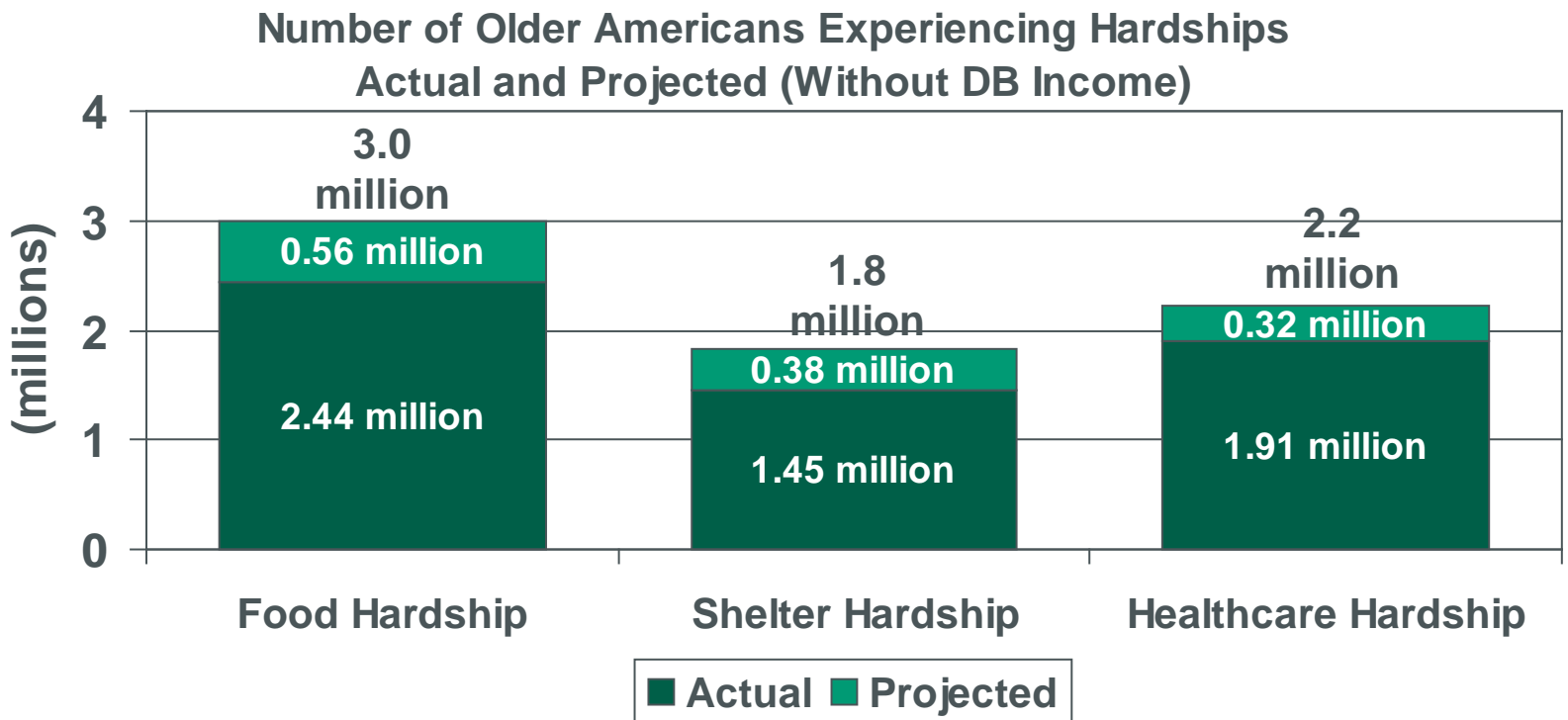


DB Income Helps Large Numbers Avoid Being Poor, Near Poor



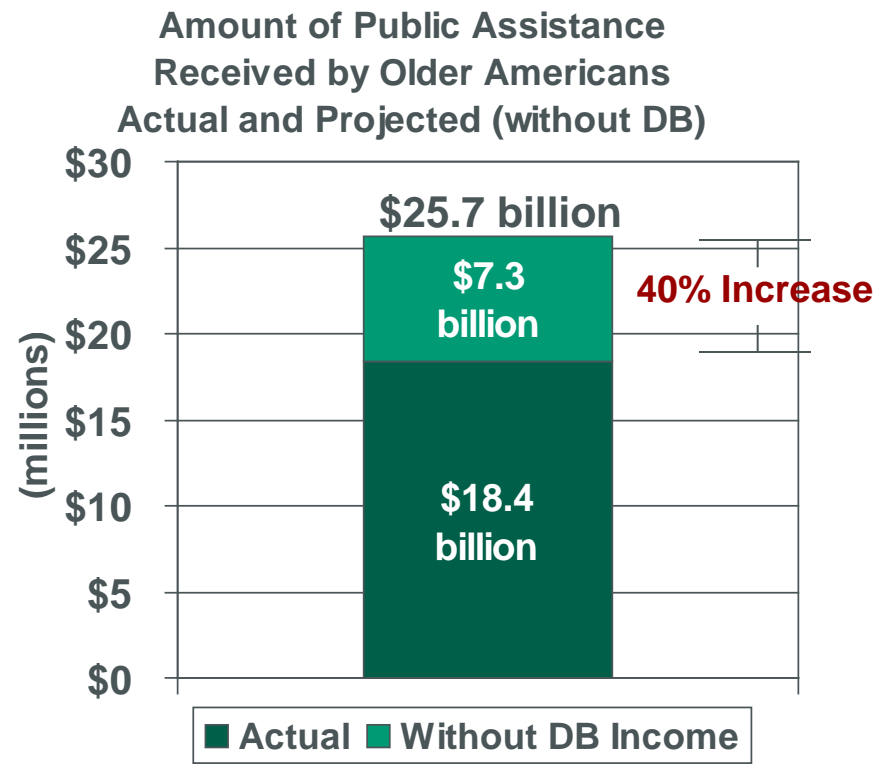
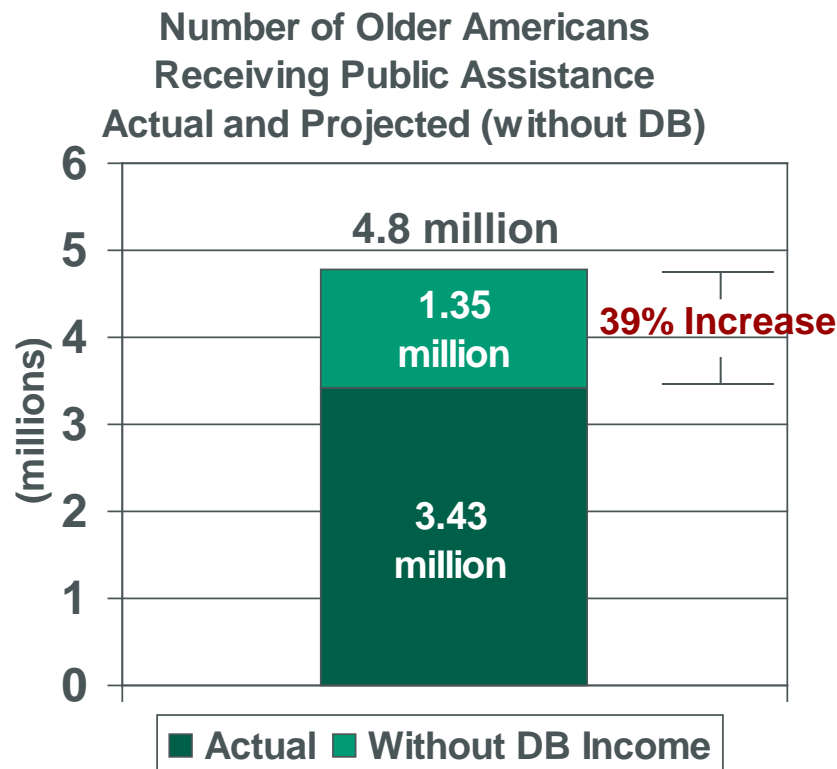
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DB Income Helps Large Numbers Avoid Hardships



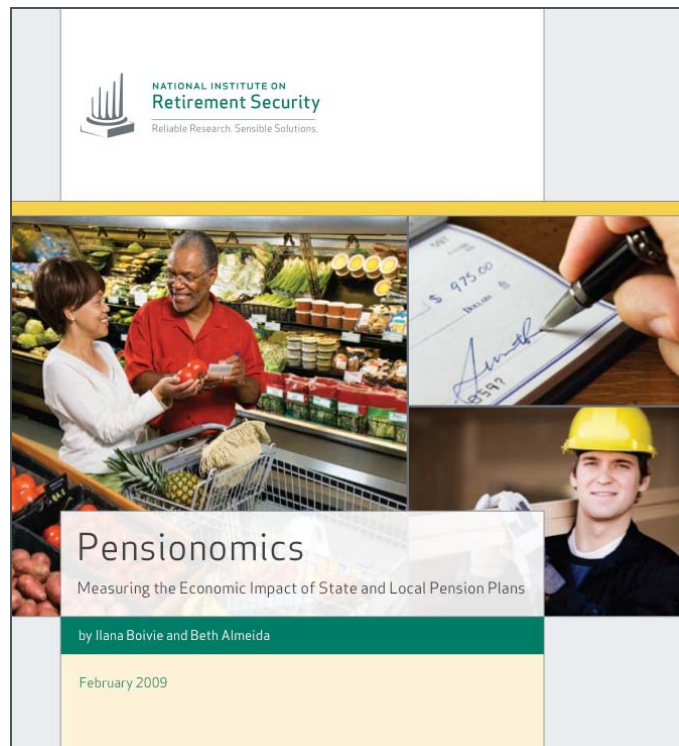
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DB Income Helps Large Numbers Avoid Public Assistance



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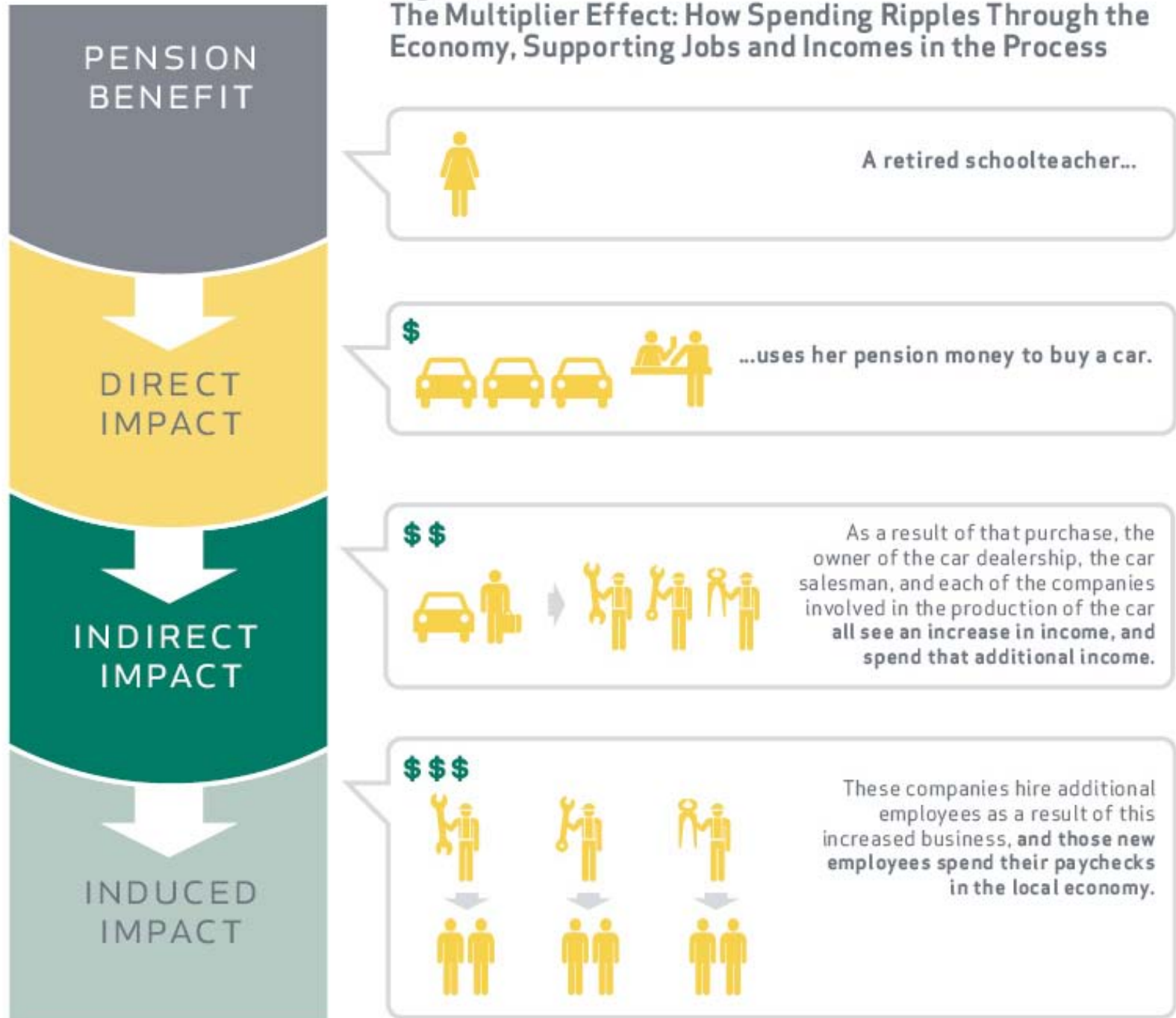
Pensionomics: Measuring the Economic Impact of Public Plans



- Measure “economic footprint” of state and local pensions
- DB plans are an “automatic stabilizer” for the economy
 - Retirees with a reliable pension can maintain spending on basic needs
- Assess stabilizing effect of state and local pensions on economy



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



Pensionomics Findings

- In 2006, expenditures made out of state and local pension 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



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

Pension Expenditure Multiplier



\$1.00

pension benefits paid to
state and local retirees



\$2.36

total output



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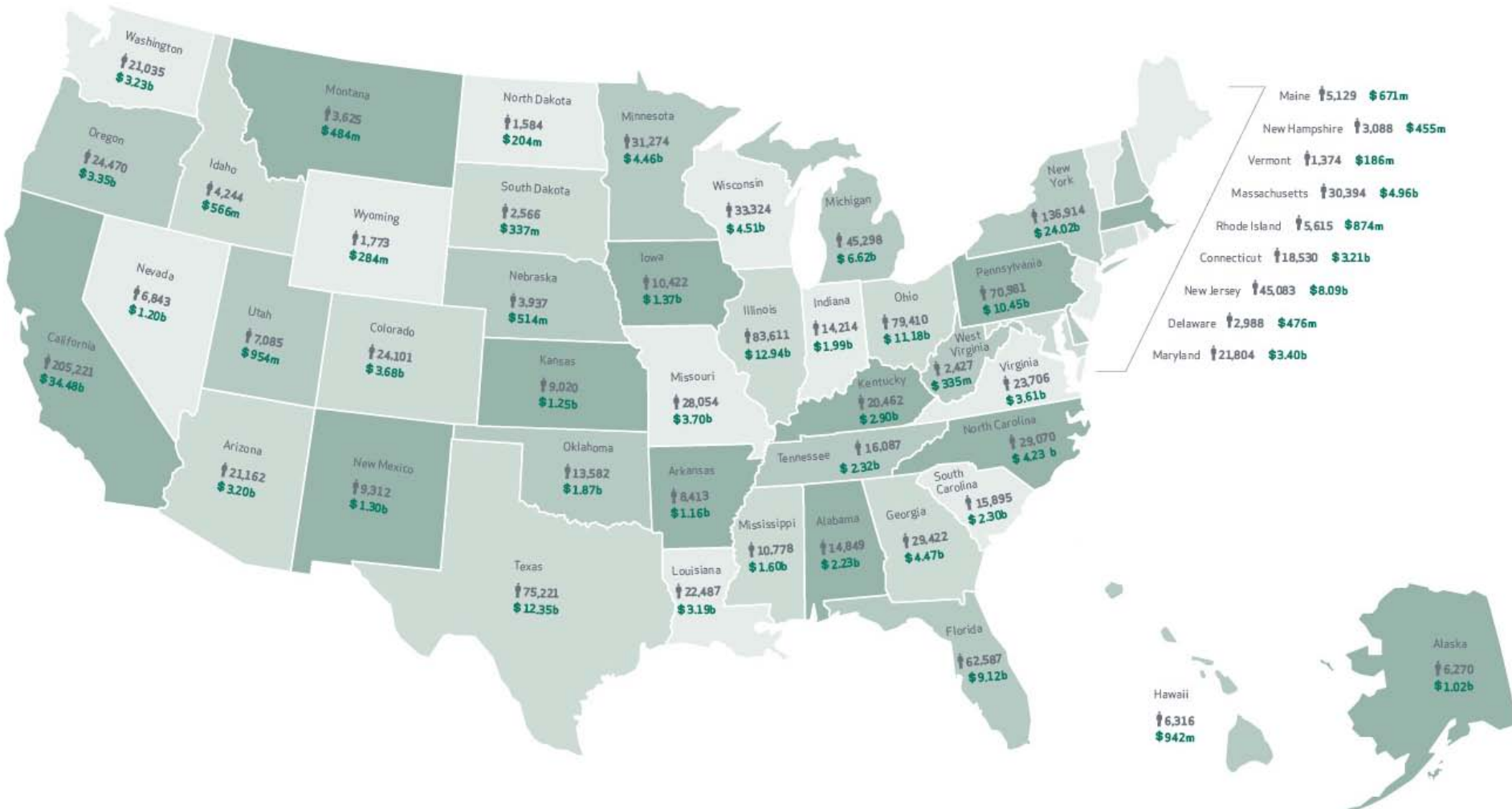
Results:

Taxpayer Investment 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...



Pensionomics by State



Pensionomics in Texas

- In 2006, expenditures made out of state and local pension benefits supported...
 - **75,221 jobs** that paid **\$ 4.9 billion** in income
 - **\$12.3 billion** in economic output statewide
 - **\$1.7 billion** in federal, state, and local tax revenue



State Fact Sheets available at www.nirsonline.org

TEXAS



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National Bureau on Taxable Income

Pensionomics:
Measuring the Economic Impact of State and Local Pension Plans

Key Findings

Overview

Expenditures made by retirees of state and local government provide a steady economic stimulus to Texas communities and the state economy. In 2006, 413,557 residents of Texas received a total of \$8.59 billion in pension benefits from state and local pension plans, with \$8.29 billion paid from plans within the state and the remainder originating from plans in other states.

The average pension benefit received was \$1,731 per month or \$20,777 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 75,221 jobs in the state. The total income to state residents supported by pension expenditures was \$4.9 billion.

Of this, the greatest share, \$2.4 billion, was comprised of employee compensation (wages and salaries). Proprietors' income (self-employment income) represented \$517.8 million, and other property income (including payments from interest, rent, royalties, profits and dividends) totaled \$2.0 billion.

Economic Impact

State and local pension funds in Texas and other states paid a total of \$8.59 billion in benefits to Texas residents in 2006. Retirees' expenditures from these benefits supported a total of \$12.3 billion in total economic output in the state, and \$5.5 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 \$2.1 billion in indirect economic impact resulted when these businesses purchased additional goods and services, generating additional income in the local economy. \$2.0 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 \$12.3 billion →

**DIRECT
IMPACT**
\$8.3 billion

**INDIRECT
IMPACT**
\$2.1 billion

**INDUCED
IMPACT**
\$2.0 billion

...in the state of Texas.

Each dollar paid out in pension benefits supported \$1.44 in total economic activity in Texas.

Each dollar "invested" by Texas taxpayers in these plans supported \$8.32 in total economic activity in the state.

For more information on the data and methodology used for these estimates, please refer to *Pensionomics: Measuring the Economic Impact of State and Local Pension Plans*, National Institute on Retirement Security, Washington, DC, February 2009, www.nirsonline.org

National Institute on Retirement Security
Pensionomics: Measuring the Economic Impact of State and Local Pension Plans

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Economic Multipliers

Taxpayer Contribution Factor*




\$1.00
Contributed by taxpayers to Texas pensions over 30 years

\$8.32
total output

Each \$1 in taxpayer contributions to Texas's state and local pension plans supported \$8.32 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 Texas

\$1.44
total output

Each \$1 in state and local pension benefits paid to Texas residents ultimately supported \$1.44 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 understated.

Impact on Tax Revenues

State and local pension payments made to Texas residents supported a total of \$1.7 billion in revenue to federal, state and local governments. Taxes paid by retirees and beneficiaries directly out of pension payments totaled \$300.7 million. Taxes attributable to direct, indirect and induced expenditures accounted for \$1.4 billion in tax revenue.

Tax Category	Amount
Federal Tax	1,119.4 million
State/Local Tax	563.6 million
Other Corporate Taxes	2.4 million
Total	\$1,685.3 billion

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)
Retail Trade	16,677	\$748.3	\$590.0	\$1,136.7
Health Care and Social Assistance	13,575	691.0	682.9	1,102.5
Accommodation and Food Services	7,862	214.4	190.5	426.0
Other Services (Except Public Administration)	6,880	185.0	171.1	355.1
Finance and Insurance	4,237	473.3	453.3	838.5
Administrative and Waste Services*	3,642	123.5	180.6	200.1
Real Estate and Rental and Leasing	3,377	450.0	383.7	681.9
Professional, Scientific, and Technical Services	3,240	241.4	236.4	426.7
Wholesale Trade	3,107	410.4	320.4	608.6
Manufacturing	2,258	271.8	263.2	1,205.0

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

Bottom Line: Sensible Solutions for Retirement Security

- ✓ Public pensions = sensible approach
 - Shared financing spreads financial burden of providing retirement benefits
 - Pensions provide a “better bang” for each taxpayer buck
 - Plans are prudently managed
 - Plans help retirees maintain middle class standard
 - Pensions have ripple effects that support jobs, help stabilize economy



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Retiree spending ripples through the nation...
2.5 million jobs and
\$358 billion in economic impact.

→ LEARN YOUR STATE IMPACT

FOCUS

Shattering the Retirement Glass Ceiling: Women Need a Three-Legged Stool



Women remain at a higher risk for retirement insecurity than men. That risk can be reduced with the combination of a traditional pension, supplemental 401 (k)-type individual savings, and Social Security.

[Read More >](#)

MORE RESEARCH >>

NEWS

NIRS Responds to USA Today Editorial



NIRS submits a response to the July 13th *USA Today* editorial. The paper is on the receiving end of misinformation regarding pensions and retirement security. It's also unfortunate that the editorial pits workers with some hope of retirement against workers most vulnerable – those lacking pensions.

[Read More >](#)

MORE NEWS >>

EXCHANGE

The Long Road to Retirement Recovery



The Federal Reserve released welcome data its June 2009 [Flow of Funds](#) report indicating that the economic situation may be stabilizing. Disposable personal income rose by \$142 billion in the first quarter 2009 and by \$358 billion since the first quarter of 2008.

[Read More >](#)

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