

The Case for Pensions

Pension Plans are an Economic Driver for the State

by Beth Pearce, Vermont State Treasurer

Reliable and adequate income in retirement is not just good for the individual, but is important to the future economic prosperity of Vermont. When we consider economic growth, we generally think of things like new businesses, good paying jobs, high-quality schools, and sound infrastructure. Those are certainly a major part of the economic prosperity equation, but not all of it. The economic output provided by both our current public employees and retired members of the State, teachers and municipal retirement systems should not be overlooked.



Earlier this year, the National Institute on Retirement Security (NIRS) published an economic analysis study on pension benefit expenditures. The study analyzed the impact of the millions of dollars in pension checks that are spent by retirees within their local community and state. Based on fiscal year 2009 data for Vermont, researchers determined that the \$206.1 million in pension benefits paid to 13,935 retirees and their beneficiaries accounted for \$299.8 million in total economic output. The study calculated that pension expenditures supported some 2,459 jobs in Vermont that paid \$96.2 million in income. These expenditures also supported some \$61.2 million in tax revenue at the local, state and federal levels.

The return on these expenditures is even more significant when you consider the taxpayer contribution to the pension. In a defined benefit (DB) plan, such as the vast majority of Vermont's pension systems, the primary source of funds to finance retirement payments is interest earned on the investments. The source of those investment dollars come from employee and employer contributions. As those contributions are invested and earn interest over decades, the pension fund grows and far exceeds the amount of the initial contributions. According to the NIRS study, each single dollar in taxpayer contributions to Vermont's state and local plans support \$5.13 in total economic output.

Economic prosperity also can be measured in terms of the financial hardships experienced by individual Vermonters. When someone is unable to adequately meet their needs for food, shelter, transportation and healthcare they must rely on public assistance. Another study conducted by the NIRS and the University of Massachusetts showed that pensions play a vital role in reducing the risk of poverty among older Americans and a reduction in public assistance expenditures. In "The Pension Factor 2012: Assessing the Role of Defined Benefit Plans in Reducing Elder Economic Hardships," researchers found rates of poverty among older households without DB pension income were approximately nine times greater than the rate among similar households with a DB pension income. Furthermore, in 2010, governments nationally spent about \$7.9 billion less on public assistance to older households because of pension income.

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In March 2012 the Employee Benefit Research Institute completed its Annual Retirement Confidence Survey. According to the report, American's confidence to retire comfortably is at historic lows. Just 14 percent report that they expect to have sufficient funds to live comfortably in retirement and 60 percent of workers report that the total value of household savings and investments, excluding their primary home, was less than \$25,000. Survey results like this reinforce the need for all of us to encourage participation in retirement plans. Retirement plans ensure funds are being saved today and invested over the long-term to secure some level of income in retirement.

Pension plans provide a stable source of income for working men and women who personally contribute to the plans--both financially and through years of service. The solutions to financial concerns about the sustainability of such plans must continue to be made in a way that promotes economic prosperity for the retiree, the taxpayer and for Vermont as a whole. That's a responsibility for the State Treasurer, your retirement board, and for all who want to ensure the future economic prosperity for Vermont's citizens.