



National Association of State Retirement Administrators

The Economic Effects of Public Pensions

Public retirement systems in the U.S. are entrusted with over \$2.5 trillion on behalf of more than 20 million working and retired state and local government employees. Because these assets have long investment horizons, are professionally managed, and are invested in diversified portfolios, they contribute to financial markets' stability and liquidity.

In their 2004 Pension Research Council working paper, *Profitable Prudence: The Case for Public Employer Defined Benefit Plans*¹, Gary Anderson² and Keith Brainard³ describe the role defined benefit plans serve in attracting and retaining employees in millions of essential public sector positions, such as police officers, firefighters, school teachers, correctional officers, health inspectors, game wardens, and others.

Public pension funds also serve as a source of economic stimulus. *Profitable Prudence* compares the actual investment returns public defined benefit plans accrued for the 20-year period ended in 2002, with those that individuals in defined contribution plans are estimated to have earned during the same period. The paper calculates the additional funds that accumulated due to these higher returns. By applying a standard economic multiplier to measure the effect of additional dollars being distributed into the economy, the paper estimates that **the annual impact of public pension funds' higher investment returns adds more than \$200 billion, or 2.0 percent, to the nation's total economic output.**

More than \$1.5 trillion of public pension assets are invested in equities of U.S. and foreign companies. Another \$700 billion is invested in bonds issued by the U.S. government, foreign governments, and corporations. And because of their long investment horizon, public pension assets are an important source of funding for venture capital—the seeds of future economic growth and productivity improvement.

According to the U.S. Census Bureau, in 2004 (the latest year for which data is available), public retirement systems distributed more than \$130 billion in benefits, while employers (taxpayers) contributed \$53 billion to these systems. During the 22-year period ended in 2004, employer contributions made up just 25 percent of all public pension revenue; the remainder came from investment earnings (63 percent) and employee contributions (12 percent).

Moreover, because public pension benefits generally are distributed in the form of regular benefit payments, the economic stimulus they provide is ongoing. Most retired workers live in or near the same area as they worked. Since public employees live in virtually every city and town in the nation, this stimulus reaches virtually every city and town of every state in the nation.

¹ Access the working paper, *Profitable Prudence: The Case for Public Employer Defined Plans* at <http://rider.wharton.upenn.edu/~prc/PRC/WP/WP2004-6.pdf>

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