# The Annual Economic Impacts of CalSTRS Benefit Payments

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Executive Summary

**Prepared for**


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# Executive Summary

The California State Teachers' Retirement System accepts moneys from school district employers and from their teaching staff, as well as a small amount from the State of California, and then invests those dollars to provide a secure retirement at the end of these teachers' careers. CalSTRS has achieved a 9.1% rate of return over the past decade, with an annual rate of 13.21% in 2006. These earnings pay about 75% of the retirees' monthly checks.

One consequence of this steady performance is that retired teachers have become a significant economic engine in their communities through spending their income payments and the resulting "economic spin-off." CalSTRS' benefit recipients contribute almost $9.225 billion per year to the California economy, and about $4.49 billion is new dollars from value-adding ripple effects. Because of investment earnings and the spin-off effects of retiree spending, the California economy gains about $6.71 for every one dollar "invested" in pensions by employers and taxpayers and $0.44 in government revenues.

**Purpose of study**

This study is intended to examine the economic impacts of the California State Teachers' Retirement System on the economies of the state of California and its 58 counties.

**CalSTRS**

- With assets of $159.1 billion at the end of February 2007, CalSTRS is the second largest of the state public retirement programs, and the largest teacher retirement fund.
- The fund builds a pool of retirement savings for 453,000 active members and disbursed benefit payments in 2006 to 181,833 retirees, 18,833 survivors and 7,683 disabled teachers.
- Teachers do not receive Social Security payments and most have no paid health care in retirement.
- The average CalSTRS member retired at age 61.2 after almost 26 years of service and received benefit payment checks of about $3,810.
- Over the past decade, earnings on investments have averaged a healthy 9.1%, and investment earnings now provide for about 75% of retiree income benefits paid in 2006.

**Findings**

- Benefit payments in 2006 of $6.029 billion support a total *output* (the ripple effect of business and government revenues as spending from those benefit checks works its way through the California economy) of about $9.225 billion.
- This economic activity supports a total of 60,867 jobs, with total compensation of around $2.112 billion.

- The total impact on *value added*, the Gross State Product, is about $4.49 billion, about 0.28% of the $1.556 trillion GSP. This results in a larger impact in the California economy than the furniture or oil and gas extraction industries (as reported by the Bureau of Economic Analysis for 2004 and 2005, the last years for which data was available).
- On average, each dollar invested by the state and schools in retirement with CalSTRS yielded a return of about $6.71 in 2006 to the California economy after being matched by employee contributions, earning returns from growth of assets and then being paid to retirees and trickling through the local economy.
- State and local governments earn $606,960,115 per year in new revenues as a result of CalSTRS benefit income payments in California. Each employer dollar invested also reaps $0.44 in new tax and fee revenues.
- The size of impacts is larger in those counties with larger cohorts of retired education personnel, but the ratio of impacts to the overall local economy is much greater in rural communities. For example, while the impact of benefit payments is only 0.25% of the total economic output in Los Angeles County, the impact is 1.57% of the Sierra County economy.

## Methodology

**Data Used:** This study is based on data covering the 2006 calendar year. The retirement fund provided the number and the amount of benefit payments paid to retirees in each ZIP code, which was then aggregated by county and region, the basic areas that IMPLAN correlates to other economic data.

**Using an Input-Output Model:** Measuring the economic impacts created by benefit payments requires the use of a model of the county or regional economy that can show the full effects to all sectors of the area. Recipients spend their benefit payments on household consumption (for example, utilities, groceries, retail purchases, transportation, local taxes and other categories). These business and public entities in turn make purchases, take profits and pay employees – all of which would not take place without the benefit payments. In a further round, those owners, employers and employees also spend their incomes, generating a second round of incomes to other businesses and to local government suppliers (and then a third round and so on…). Thus the sum of all the successive rounds of benefits will be much higher than the original benefit payments. In order to measure the total effects, researchers use an econometric model called an *input-output model*, which was originally created during WWII to predict how much of critical materials would be required to produce a target level of industrial output.

**IMPLAN:** This study uses the IMPLAN model, developed in the mid-1970s by the USDA, the U.S. Forest Service, and University of Minnesota economists for community impact analysis of federally-funded projects. IMPLAN is currently specified as the methodology required on many federal and state public works and natural resources projects and is widely used in California for California Environmental Quality Act (CEQA) reviews. The name for this trademarked software package originated from the description IMPact Analysis for PLANning.

The IMPLAN model must be calibrated for each local economy where impacts will be measured. The calibration requires a model for the local economy that shows all of the productive sectors and measures interconnections among them. The calibration is based on data from the U.S. Bureau of Labor Statistics ES-202 survey of local businesses, which is updated every two years. The update used in this study was performed in 2004.

**Researchers**

**Dr. Robert Fountain** is a *professor emeritus* at California State University Sacramento, having over 25 years of experience in teaching and research on housing and regional economics topics. He has a doctoral degree from UCLA with major field concentration in Housing, Real Estate and Urban Land Economics. Other fields of study include Finance, Urban and Regional Planning and Research Methodology.

He is the Director of the Applied Research Center at Sacramento State and has also served as Chief Economist for the Sacramento Regional Research Institute and Director of the Real Estate & Land Use Institute at Sacramento State.

Dr. Fountain's experience in economic analysis over a range of related topics such as economic forecasting, economic development, land use planning, housing market analysis, labor market and educational issues and many others allows him to go "outside the box" and identify relationships among issues that have an integrated effect on the regional economic environment.

**Dr. Robert Waste** studied and taught at Harvard and Yale and received his Ph.D. from the University of California at Davis. He is now a professor in the Department of Public Policy and Administration, California State University, Sacramento and Faculty Advisor to the California Executive Fellows Program, a joint program of the CSUS Center for California Studies and the Office of the Governor of California. Previously, he was Chair of the Department of Public Policy and Administration.

Since 2002, Dr. Waste has served as the Chair of the Sacramento City Planning Commission.

His books include:

- *Independent Cities: Rethinking U.S. Urban Policy*
  (New York: Oxford University Press, 1998).
- *The Ecology of City Policymaking*
  (New York: Oxford University Press, 1989).
- *Power and Pluralism in American Cities: Researching the Urban Laboratory*
  (Westport, CT: Greenwood Press, 1987).