

# CalPERS **Economic Impacts** in California

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March 2014

This study reflects impacts for the Fiscal Year ending June 30, 2012.

# CalPERS benefit payments and investments in California are **essential** to the state's economy.

## Benefit impacts:

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**\$1 → \$10.85**

every taxpayer dollar contributed to CalPERS returns \$10.85 in economic activity

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page 6

## Investment impacts:

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**\$20.7 billion**

CalPERS investments in California

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page 9

**\$30.4 billion**

economic activity created by CalPERS benefit payments

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page 6

**1.5 million**

California jobs supported by CalPERS investment portfolio

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page 10

**\$1 billion**

supports California's recovering real estate sector

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page 7

**73%**

private equity investments in high minority areas

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page 12

**Contents**

Introduction . . . . . 3  
Economic structure of California . . . . . 4  
Statewide impact of CalPERS benefit payments. . . . . 5  
Economic multiplier. . . . . 6  
Tax revenue. . . . . 6  
CalPERS return on taxpayer contributions . . . . . 6  
Revenues by industry . . . . . 7  
Job creation by industry . . . . . 8  
Overview of CalPERS investments in California . . . . . 9  
Jobs supported by CalPERS investments . . . . . 10  
CalPERS socially beneficial investments . . . . . 12  
Summary . . . . . 13

**Introduction**

The California Public Employees’ Retirement System (CalPERS) plays a vital role in California’s economy by providing CalPERS benefits to more than 450,000 retirees and investing \$20.7 billion throughout the state (June 30, 2012). This money provides several ancillary benefits as it ripples through the state’s economy. CalPERS investment portfolio supports approximately 1.5 million local jobs. In addition, CalPERS benefit payments deliver a return of \$10.85 in economic activity to California for each taxpayer dollar invested in CalPERS.

CalPERS recently conducted analyses that capture the statewide impacts of its benefits and investments on business, tax revenue, jobs supported and other economic benefits. This document summarizes key findings from the analyses.

## Economic structure of California

California is the world's eighth largest economy, generating approximately \$2 trillion in economic activity and almost 20 million jobs.<sup>1</sup>

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### Snapshot of California's Economy (FY 2011-12)

Gross regional product . . . . .	\$1,951,348,567,523
Total personal income . . . . .	\$1,676,565,000,000
Population . . . . .	37,691,910
Employment . . . . .	19,552,319
Total worker compensation . . . . .	\$1,043,185,388,704
Average compensation* . . . . .	\$53,354

\* *Total employee compensation divided by employment*

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California suffered greatly during the recession as the unemployment rate peaked at 12.4 percent in 2010. Similar to the rest of the country, California is now experiencing a modest recovery as the housing market, consumer spending and employment continue to improve. The U.S. Bureau of Labor Statistics reported that as of July 2013, California's unemployment rate declined to 8.7 percent.<sup>2</sup> The California Department of Finance and the Kyser Center for Economic Research predict that California will continue to recover at a modest pace.<sup>3</sup> Throughout the recession and current recovery period, CalPERS continues to provide steady and important economic stimulus to California through its benefits and investments.

# \$13 billion

CalPERS benefit payments  
to California residents

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## Statewide impact of CalPERS benefit payments

CalPERS benefit recipients provide a steady infusion of economic activity in California. Direct benefit payments, economic activity resulting from the multiplier effect, jobs generated by consumption and new taxes all stimulate California's economy. The economic impact of CalPERS benefit payments far exceed the initial taxpayer investment.

In Fiscal Year (FY) 2011-12, CalPERS provided nearly \$13 billion in benefits to 452,750 California residents. These benefits created 113,664 jobs throughout California.

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### CalPERS Retirees in California

Number of retirees . . . . .	452,750
Annual CalPERS retiree payments . . . . .	\$12,729,556,585
Average annual allowance per retiree . . . . .	\$28,116

### Impacts of Benefit Payments in California

CalPERS benefit payments . . . . .	\$12,729,556,585
Additional revenue created . . . . .	\$17,640,342,237
Total economic revenue . . . . .	\$30,369,898,822
Economic multiplier . . . . .	2.39
Sales tax generated . . . . .	\$385,344,721
Property tax generated . . . . .	\$410,536,390
Employment generated . . . . .	113,664

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# \$30.4 billion

economic activity created by  
CalPERS benefit payments

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## Economic multiplier

CalPERS benefit recipients create a chain of economic activity when they consume goods and services. In FY 2011-12, CalPERS benefits created an additional \$17.6 billion in business revenue. The total economic revenue generated by CalPERS benefits was nearly \$30.4 billion or 1.6 percent of California's Gross Regional Product.

The economic multiplier effect captures increases in total economic activity. The economic multiplier is the ratio of total economic impacts attributable to CalPERS benefits to direct benefit payments. The economic multiplier to California residents was 2.39 in FY 2011-12.<sup>4</sup> This translates to \$2.39 of economic activity in California for every benefit dollar.

## Tax revenue

CalPERS benefit recipients generate sales tax revenue when they consume goods and services. CalPERS benefits also provide a steady stream of property tax revenue, which is vital to California's local communities. In FY 2011-12, CalPERS benefit recipients generated over \$385 million in sales tax revenue and \$411 million in property tax revenue.

# \$1 → \$10.85

every taxpayer dollar  
contributed to CalPERS returns  
\$10.85 in economic activity

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## CalPERS return on taxpayer contributions

The economic impact of CalPERS benefits far exceed initial taxpayer contributions. Investment income and contributions from public employers and employees fund CalPERS benefit payments. The proportion of funds that come from each source changes over time. As of June 30, 2012, for every dollar in benefits, 64 cents came from investment earnings, 22 cents from employer contributions and 14 cents from employee contributions.<sup>5</sup>

By applying the 22 cents per employer contribution rate to total benefits paid in California in FY 2011-12, staff estimates that approximately \$2.8 billion came from employer contributions. CalPERS benefits, therefore, returned \$10.85 in economic activity for each taxpayer dollar contributed toward the system.

# \$1 billion

supports California's  
recovering real estate sector

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## Revenues by industry

CalPERS benefit recipients generate business revenue in many different industry sectors. In FY 2011-12 the real estate sector received significant support with over \$1 billion in revenues. Another sector related to the housing market, "imputed rental activity for owner-occupied dwellings," received the greatest economic impact in terms of revenues. This sector captures the average rental income homeowners would receive if they rented their dwelling. Additionally, health care services received more than \$1.4 billion in business revenues supporting physician, dentist and health care offices and private hospital sectors. The food services and drinking places sector also received significant support with over \$800 million in business revenues.

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### Top 10 industry sectors\* supported by CalPERS benefit payments, by revenues (FY 2011-12)

Imputed rental activity for owner-occupied dwellings <sup>6</sup>	\$1,709,693,480	
Real estate establishments	\$1,076,066,239	
Wholesale trade businesses	\$908,664,660	
Offices of physicians, dentists and other health practitioners	\$845,894,160	
Food services and drinking places	\$812,562,367	
Monetary and depository credit intermediation activities	\$782,977,898	
Securities, commodities, investments and related activities	\$606,897,190	
Private hospitals	\$605,287,717	
Petroleum refineries	\$532,793,922	
Telecommunications	\$467,526,188	

\* With the exception of the imputed rental activity for owner-occupied dwellings sector, these sectors are defined by the North American Industry Classification System.






# 113,664

California jobs created by CalPERS benefit payments

## Job creation by industry

CalPERS benefits created 113,664 jobs throughout the state and nearly 50,000 jobs in the top ten sectors alone. Food services and drinking places received the greatest support with 12,745 jobs created. The health services industry received significant support with nearly 10,500 jobs created in physician, dentist and health care offices and private hospitals. CalPERS benefits created 6,120 jobs in the real estate establishments sector.

### Top 10 industry sectors supported by CalPERS benefit payments, by number of jobs (FY 2011-12)

Food services and drinking places	12,745	
Offices of physicians, dentists and other health practitioners	6,722	
Real estate establishments	6,120	
Wholesale trade businesses	4,908	
Retail Stores – Food and beverage	3,714	
Retail Stores – General merchandise	3,670	
Private hospitals	3,667	
Securities, commodities, investments and related activities	3,615	
Retail Stores – Motor vehicle and parts	2,281	
Employment services	2,228	



# \$20.7 billion

CalPERS investments  
in California

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## Overview of CalPERS investments in California

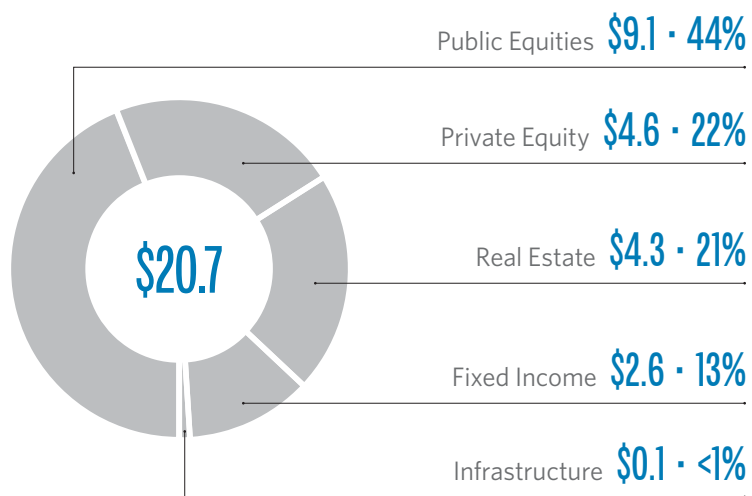
CalPERS invests in California because of the state's vibrant, robust and diverse economy. As of June 30, 2012, CalPERS investment portfolio totaled \$233.4 billion. Investments in California accounted for approximately 8.9 percent, or \$20.7 billion, of CalPERS portfolio and supported approximately 1.5 million jobs.<sup>7</sup>

CalPERS primary investment objective is to achieve an appropriate risk-adjusted return on investment. Investments in California, however, create additional ancillary benefits. These benefits include the support and creation of jobs and socially beneficial impacts.

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### CalPERS investments in California, by asset class<sup>8</sup>

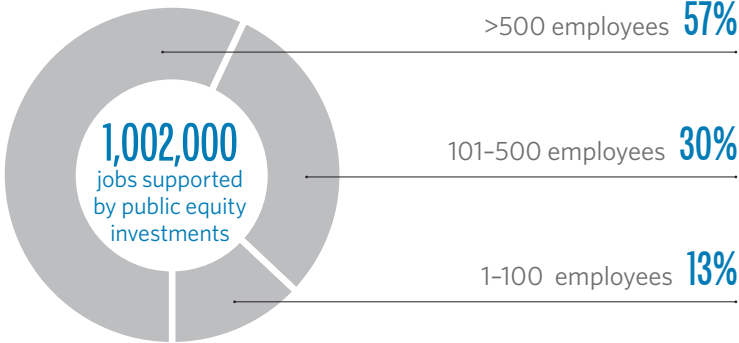
(in billions, as of June 30, 2012)



# Jobs supported by CalPERS investments

CalPERS public market investments include public equities and fixed income. CalPERS invests in 664 California-headquartered public companies, which employ more than one million Californians. Many of these companies, such as Google, Apple and Walt Disney, are iconic to California.

## CalPERS public equity investment, by company size



# 1.5 million

California jobs supported by CalPERS investment portfolio<sup>7</sup>

CalPERS fixed income investments include \$543 million invested directly in 16 California companies. These companies are larger in comparison to companies in other asset classes, with a median size of approximately 11,800 employees. Combined, these companies employ an estimated 178,000 workers and operate 2,500 facilities in California.

CalPERS private market investments include private equity, real estate and infrastructure and can be more directly attributed to job creation and other ancillary benefits than investments in public markets. This is typically the case because CalPERS is a larger investor among a more targeted group of investors. CalPERS invests in 1,836 private companies in California that employ a combined 188,000 workers.

# 102,000

California jobs  
supported by CalPERS  
real estate portfolio

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More than 20 percent of CalPERS total real estate investments are in California. The diverse group of assets in the real estate asset class provide additional benefits to the local economy, including:

- Creation of construction jobs
- Construction-related economic activity
- New retail, industrial and commercial opportunities
- Infusion of real assets into a community

CalPERS real estate investments support 102,000 jobs in California, with the development and construction phase accounting for 17,000 of these jobs. The construction phase of CalPERS real estate projects provides the indirect benefit of supporting other California workers. Construction workers create economic activity and support additional jobs when they consume goods and services where projects are located, as a result of the economic multiplier effect.

Infrastructure investment supports 2,000 jobs statewide and has the potential to indirectly support additional employment by increasing the efficiency of commerce.

73%

CalPERS private equity investments in high minority areas

## CalPERS socially beneficial investments

In addition to providing the ancillary benefit of job creation, CalPERS investments provide social benefits. These benefits include providing capital to areas that have limited access to private equity. Private equity investment in California is highly concentrated, as 95 percent of all private equity investment is within six ZIP codes. Furthermore, CalPERS private equity investments are located in high minority, high unemployment, low-to-moderate income (LMI) and rural areas.

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### CalPERS private equity investments, by area type (FY 2011-12)

Area	% of Investments	% of \$
High unemployment . . . . .	14	18
Rural . . . . .	5	4
High minority . . . . .	73	70
Low-to-moderate income . . . . .	27	29
Limited capital access . . . . .	17	30

*Note: Many of the areas overlap, therefore, the columns above should not be expected to total 100 percent.*

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CalPERS also invests in infrastructure projects that may benefit communities. These projects may increase the efficiency to transport commerce, provide construction jobs with their own ancillary benefits or provide water to drought-prone areas. CalPERS remains committed to investing in California’s essential infrastructure assets. This commitment includes outreach efforts to private and public sector leaders to encourage open dialogue on infrastructure investments, including transportation, water and energy projects. Infrastructure projects have the potential to increase economic activity and provide many other social benefits.

# Summary

CalPERS benefits and investments in California are essential to the state's economy. The stable and steady economic impacts are even more important during times of economic recovery. CalPERS benefits generate economic activity, which leads to job creation, increased business revenue and tax generation. CalPERS investments provide capital to many businesses headquartered in California and support approximately 1.5 million jobs. In addition, CalPERS investments provide social and other ancillary benefits that are vital to California.

## Endnotes

- <sup>1</sup> Kleinhenz, Robert A., Kimberly Ritter-Martinez and Ferdinando Guerra. 2013-14 Economic Forecast and Industry Outlook. The Kyser Center for Economic Research. February 2013. Web. 15 October 2013.
- <sup>2</sup> U.S. Bureau of Labor Statistics. "Databases, Tables, & Calculators by Subject." n.d. Web. 30 October 2013.
- <sup>3</sup> Meyers, Dennis. "Economic Outlook." CalPERS. 400 Q Street, Sacramento CA. 12 June 2013. Presentation.
- <sup>4</sup> IMPLAN, which is an input-output model, calculated the economic multiplier. Input-output models cannot be used for time series analysis because they provide a "snapshot in time" of how the economy is structured. They do not provide information on why the structure changed and what effect any change may have on the aggregate economy.
- <sup>5</sup> CalPERS. "The CalPERS Pension Buck." CalPERS, 15 February 2013. Web. 15 October 2013.
- <sup>6</sup> IMPLAN. "Special Sector Definitions." n.d. Web. 15 October 2013.
- <sup>7</sup> CalPERS. "CalPERS for California 2012." Sacramento, CA. March 2013. Print.
- <sup>8</sup> Definitions of the asset classes are listed below:
  - Public Equities** — Investments in public companies domestically and internationally, for example through the New York Stock Exchange
  - Private Equity** — Investments in private companies that are not publicly traded.
  - Real Estate** — Investments in commercial, residential and industrial property
  - Fixed Income** — Investments in loans provided to governments, companies and other borrowers.
  - Infrastructure** — Investments in real assets including bridges, toll roads, utilities and airports.

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