



PUTTING STATE PENSION COSTS IN CONTEXT: HOW THEY COMPARE TO THE COST OF CORPORATE SUBSIDIES, TAX BREAKS & LOOPHOLES

Although funding levels for public pensions have improved since the Great Recession, strengthening state pension funds remains a high priority in many states. While some advocate for reducing benefits or shifting workers to less secure 401(k)-style plans, there are other state expenditures that are often poorly monitored and should be considered as a source of funding to help states meet their promises to public servants. Chief among these are the costs of corporate subsidies and tax breaks which have proliferated in many states.

Good Jobs First seeks to put current pension costs (known as employer normal costs) into comparative context. Focusing on 12 states where pensions have been debated, we compare those costs to the amount of revenue those states lose each year as the result of economic development subsidies offered to corporations as well as the tax preferences and accounting loopholes (including offshore tax havens) used by companies. While not providing an assessment of the effectiveness of any particular subsidy or provision, this approach does provide an important perspective on public sector pensions.

We found that in 9 states, the total annual cost of corporate subsidies, tax breaks and loopholes exceeds the current annual pension costs for their main public pension plans (see table below). In some cases the differences are enormous. In Florida they are nearly three times pension costs. In four of the twelve states, subsidies and loopholes are more than twice pension costs.

In three states, pensions exceed the annual cost of subsidies and tax break/loophole costs, at least as we could identify them. However, Oregon does not disclose the cost of its single sales factor apportionment for corporate income tax, but it clearly generates significant tax savings for firms with significant capacity and payroll in the state but selling most of their goods nationally. Though Alabama issued its first-ever tax expenditure report in early 2017, the cost of five subsidy programs remain undisclosed. In Texas, the lack of a state corporate income tax means there are no corporate income tax credits or exclusions, which are often the largest expense in other states.

As a matter of honest accounting and fair budgeting, state leaders should examine all forms of spending before they single out pensions or any other expense. Corporate tax breaks and loopholes are often poorly understood and little-noticed because they do not get debated and annually or bi-annually reauthorized the way appropriations do, nor do they often get sunsetted or audited. But over time, they add up to hundreds of millions, or even billions, of dollars per year.

State	Annual employer normal pension costs	Annual cost of corporate subsidies & tax breaks/ loopholes	Annual pension costs as a share of subsidies + tax breaks/loopholes
Alabama	\$1,016,474,000	\$633,979,616	157.7%
Arizona	\$334,230,649	\$575,319,266	58.1%
California	\$4,427,681,086	\$7,644,828,725	57.9%
Colorado	\$299,867,196	\$615,235,336	48.7%
Florida	\$1,155,229,000	\$3,323,057,512	34.8%
Kentucky	\$400,000,000	\$580,337,986	68.9%
Michigan	\$978,900,000	\$2,249,882,325	43.5%
Minnesota	\$1,396,200,000	\$1,658,648,378	84.2%
Missouri	\$421,891,802	\$472,654,134	89.3%
Oklahoma	\$299,406,679	\$796,815,342	37.6%
Oregon	\$1,126,300,000	\$680,439,696	165.5%
Texas	\$1,822,777,964	\$1,208,518,118	150.8%
TOTALS	\$13,678,958,376	\$20,439,716,434	66.9%

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