

Economic contribution of the New Jersey securities, commodity contracts, and investments sector

Prepared for the Securities Industry &
Financial Markets Association and Managed
Funds Association

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1. Introduction and summary

The Securities Industry and Financial Markets Association (SIFMA) and Managed Funds Association (MFA) commissioned EY to prepare this report, which presents estimates of the overall economic contribution of New Jersey's securities, commodity contracts, and other financial investments and related activities sector, which may be impacted by a potential New Jersey financial transaction tax (FTT).¹

The FTT would tax financial transactions conducted using New Jersey electronic infrastructure resulting in significant tax liability for many New Jersey financial sector businesses. At the time of this analysis, the details and mechanics of the potential FTT have not been decided. Therefore, it is not possible to estimate the tax's precise scope, tax revenue impact, impact on New Jersey financial services companies, or impact on the state's economy. Instead, this report summarizes the overall contribution of businesses which may conduct financial transactions using New Jersey electronic infrastructure. Given the high degree of certain business functions that support electronic trading in New Jersey, and the fact that electronic transactions are conducted remotely from the physical location of the buyers and sellers of financial instruments, it is reasonable to conclude that a portion of the economic activity summarized in this analysis may relocate to another state were a financial transactions tax to be levied on New Jersey transactions.

The key findings of the analysis include:

- **The New Jersey securities, commodity contracts, and investments sector conducts electronic transactions.** Firms in this sector engage in, among other activities, investment banking, securities trading, stock exchanges, and fund management, and electronic trading infrastructure which is collocated with major exchange data centers in Northern New Jersey.
- **The securities sector employs more than 38,000 workers in New Jersey.** This represents direct securities sector jobs, but the certain companies impacted by the FTT employ workers in other activities which are not counted in this figure. In all, the financial services and insurance sector employs nearly 200,000 total New Jersey workers.² As a result, jobs outside of the securities sector may also be impacted if companies reevaluate current or future jobs given sector-specific taxes. For several New Jersey securities sector firms providing information to EY, employment related to electronic transactions accounts for 20-30% of their overall New Jersey headcount.
- **The sector's indirect and induced contributions support, in addition to those above, almost 55,000 New Jersey workers.** The economic activities of the sector in New Jersey support 25,700 employees indirectly in supplier businesses such as professional services, building services, utilities, and transportation. Additional induced economic contributions, which relate to the economic activity supported by the consumption spending of employees, supports an additional 29,100 jobs which are concentrated in sectors such as restaurants, retailers, and personal services.³
- **Employment in the securities, commodity contracts, and investments sector is greater than many significant New Jersey industries.** The sector's 38,300 workers outnumber the number of New

¹ The sector analyzed in this report is hereinafter referred to as "securities, commodity contracts, and investments sector", or the "securities sector".

² For 2019, the Bureau of Labor Statistics reports 198,736 employees for NAICS 52, Finance and Insurance.

³ These economic contributions are estimated using a standard input-output economic contribution methodology which relies on industry averages contained in the IMPLAN model of New Jersey and published data describing the industry's level of employment and payroll in New Jersey. This approach does not reflect the overall statewide economic impact of a change in the size of the industry but rather a snapshot of the economic activity that the industry currently supports in the state.

Jersey workers in each of the transit and ground transportation (23,000), telecommunications (22,700), and utility sectors (14,600).

- **The average annual wage paid to securities, commodity contracts, and investments sector employees is 2.8 times the statewide average.** The average annual wage paid to workers in the affected sectors is \$188,000, compared to a statewide average for all sectors of \$67,000 (incl. financial services).
- **Total wages paid by these New Jersey businesses are 1.8% of all wages paid in the state.** This wage contribution is greater than the sector's 0.9% of New Jersey employees.⁴ For 2019, the \$7.2 billion of wages paid by these businesses compares to \$409 billion of total wages earned in New Jersey.
- **The sector's employment multiplier of 2.43, is higher than many other industry aggregates.** The securities sector's employment multiplier, which is number of total New Jersey jobs supported by the sector per direct job in the sector, is greater than the multiplier of the average New Jersey industry.⁵ The overall state average employment multiplier for all industries is 1.90, meaning that the employment multiplier for the securities sector is 28% higher than the statewide average.⁶
- **New Jersey financial services companies bear a significant corporate tax burden.** The financial services and insurance sector accounts for 7% of New Jersey state GDP but pays 12% of total corporate business tax (CBT).
- **The sector contributes nearly \$1.4 billion in New Jersey state and local taxes.** Direct New Jersey state and local tax contributions of the sector's firms and their employees total nearly \$1 billion. Additional taxes related to New Jersey suppliers and businesses supported by employee consumption total approximately \$400 million, bringing the sector's total tax contribution to \$1.4 billion.
- **Nearly 80,000 New Jersey residents are employed by the securities sector in New Jersey or other states.**⁷ Beyond the employment at New Jersey businesses in the securities sector, 1.5% of the New Jersey resident labor force is employed by the securities sector either in New Jersey or another state. Many of those residents are employed in the New York City metro area, meaning that the continued importance of the New York city metro area as a hub of securities sector activity is likely important to the continued employment of these residents.

⁴ For 2019, the Bureau of Labor Statistics reports 4,083,014 total employees for New Jersey.

⁵ The employment multiplier is calculated as the sum of direct, indirect, and induced employment contributions divided by direct jobs. The employment multiplier is a measure of the number of total jobs are supported in the state per direct job in the industry.

⁶ The estimated multipliers are based on the IMPLAN economic model of New Jersey. The multiplier is defined as the total jobs (including indirect and induced employment effects) supported by each direct job in the sector.

⁷ Source: US Census Bureau ACS 1-Year Estimates-Public Use Microdata Sample 2018, PWGTP weighted, New Jersey, FIN-Securities, Commodities, Funds, Trusts, and Other Financial Investments employment of 79,567; New Jersey resident labor force equals 8,908,520 total residents less 3,511,431 residents who are under the age of 16 or last held a job more than 5 years ago.

2. New Jersey's securities, commodity contracts, and investments sector

The New Jersey securities, commodity contracts, and investments sector is defined to include several component industries:⁸

- Securities brokerage (NAICS 523120)
- Securities and commodity exchanges (NAICS 523210)
- Investment banking and securities dealing (NAICS 523110)
- Commodity contracts dealing (NAICS 523130)
- Commodity contracts brokerage (523140)
- Miscellaneous intermediation (NAICS 523910)
- Portfolio management (NAICS 523920)
- Investment advice (NAICS 523930)
- Trust, fiduciary, and custody activities (NAICS 523991)
- Miscellaneous financial investment activities (NAICS 523999)

As shown in Table 1, these sectors collectively employ 38,300 workers in New Jersey and pay estimated wages of \$7.2 billion annually. These wages account for 1.8% of all wages earned in New Jersey in 2019 but only 0.9% of employment in the state.⁹

Table 1. Securities, commodity contracts, and investments sector employment and wages in New Jersey, 2019

Industry	Employment	Total wages
Investment banking and securities dealing	13,900	\$2.61 b
Securities brokerage	10,200	\$2.16 b
Commodity contracts dealing	600	\$0.08 b
Commodity contracts brokerage	400	\$0.04 b
Securities and commodity exchanges	200	\$0.03 b
Miscellaneous intermediation	200	\$0.05 b
Portfolio management	3,800	\$0.85 b
Investment advice	7,900	\$1.15 b
Trust, fiduciary, and custody activities	300	\$0.04 b
Miscellaneous financial investment activities	800	\$0.18 b
Total: securities, commodity contracts, and investments sector	38,300	\$7.19 b

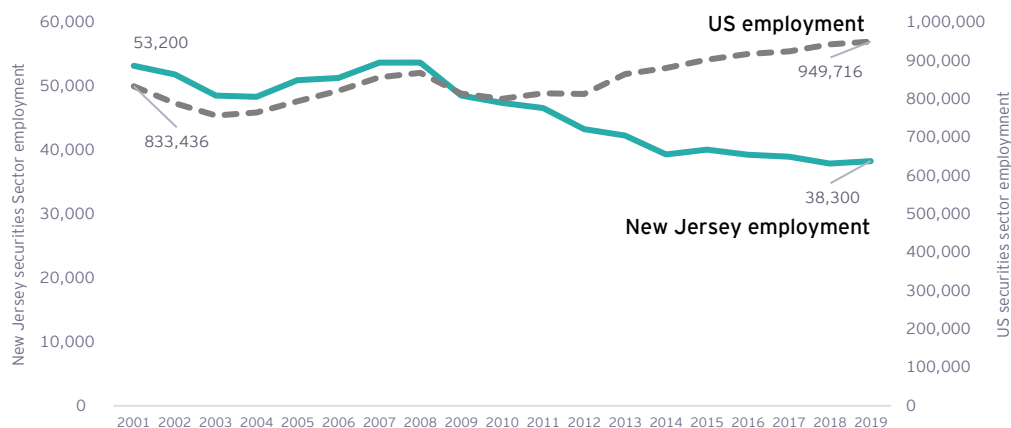
Source: BLS Quarterly Census of Employment and Wages, except for the Securities and Commodity Exchanges industry, for which employment data is not publicly disclosed by BLS. For this sector, employment information was gathered from JobsEQ, from individual companies, as well as from Dun & Bradstreet's Hoover's database of company location information. Note: employment amounts have been rounded from the publicly reported data and the "miscellaneous financial investment activities" employment amount is estimated as the residual of the published total employment in the sector and the individual industry estimates. Amounts are rounded.

Figure 1 shows that New Jersey employment in the securities, commodity contracts, investments sector declined from more than 53,000 in 2001 to approximately 38,300 in 2019, a 28% decrease. During the same period, US securities sector employment grew from 833,000 to 950,000, a 14% increase.

⁸ The sector definition used in this study is NAICS 523: Securities, commodity contracts, and investments

⁹ The US Bureau of Economic Analysis reports that New Jersey total wage and salary earnings for 2019 were \$409.1 billion. Sourced from US Bureau of Economic Analysis, National Income and Product Accounts, SAINC5N Personal Income by Major Component and Earnings by NAICS Industry, Earnings by place of work.

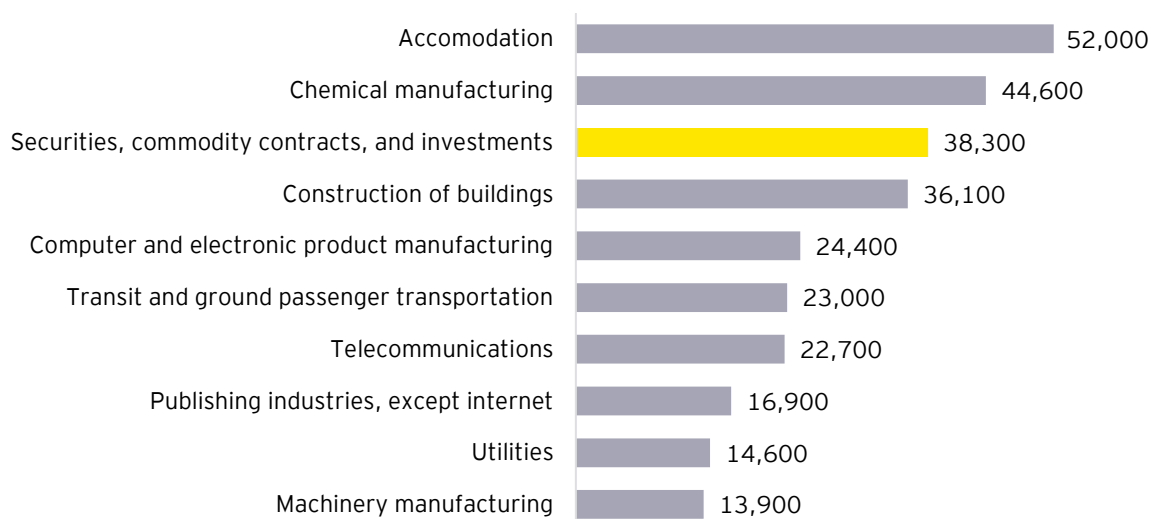
Figure 1. New Jersey and US employment in the securities, commodity contracts, investments sector, 2001-2019



Source: US Bureau of Labor Statistics

Figure 2 shows the employment in the New Jersey securities, commodity contracts, and investments sector as compared with other selected sectors. The securities, commodity contracts, and investments sector accounts for more statewide employment than the employment in each of the telecommunications, utilities, transportation, and publishing industries, individually, and rivals the size of many other significant New Jersey industries such as chemical manufacturing and accommodation.

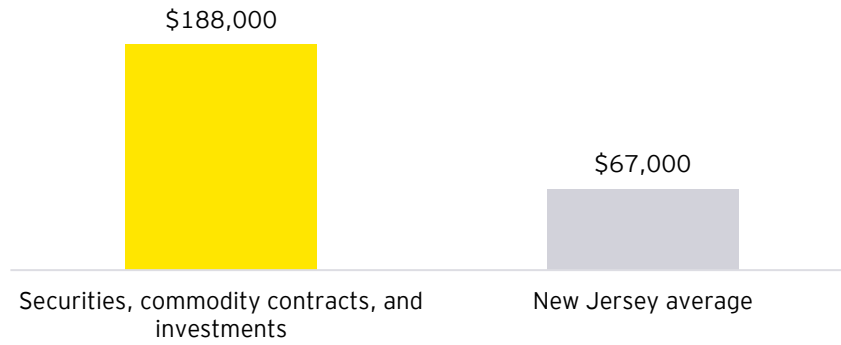
Figure 2. New Jersey employment, select industries, 2019



Source: BLS Quarterly Census of Employment and Wages; see Table 1 for additional sourcing detail; amounts are rounded

Figure 3 compares average annual wages in the securities, commodity contracts, and investments sector with the New Jersey statewide average annual wage level. The average wage for this sector is 2.8 times the New Jersey average, meaning these are well paid jobs which support significant employee spending in the state.

Figure 3. Annual average wages paid by the securities, commodity contracts, and investments sector and New Jersey statewide average, 2019



Source: BLS Quarterly Census of Employment and Wages, Jobs EQ, amounts are rounded

3. Total economic contribution of the securities, commodity contracts, and investments sector in New Jersey

The economic contribution of the securities, commodity contracts, and investments sector includes not only the activity contained within the New Jersey facilities operated by these companies, but also includes the activities supported by the payments of these companies to employees as well as payments to third-party suppliers. This section of the report summarizes the industry's economic contribution in terms of three metrics:

- **Employment:** the total number of full-time and part-time workers in the state, based on place of employment.
- **Labor income:** the total cash and non-cash compensation (benefits) paid to employees.
- **Value added:** the total incremental value that is created by an economic activity, approximately equivalent to revenue less purchases from third parties.

The contributions include three categories of economic activity, which reflect the connection of the New Jersey financial services businesses to other types of businesses in the state:

- **Direct economic contribution.** Direct economic contribution denotes the activity of New Jersey financial services companies, including the employment and associated labor costs of their New Jersey workers.
- **Indirect economic contribution.** Indirect economic contribution denotes the impact related to the suppliers of these financial services companies in New Jersey. Typically, the supplier spending of financial services firms in the state is concentrated in the professional and business services categories, as well as utilities, real estate, and technology.
- **Induced economic contribution.** Induced contribution denotes the spending of earnings by employees of the sector.

Table 2 presents the estimated economic contributions of New Jersey's securities, commodity contracts, and investments sector for 2019. The direct contributions are based on the information presented in Table 1 describing the direct footprint of the sector. These data points are used as inputs into the IMPLAN economic model of New Jersey to estimate the indirect and induced economic effects.

These estimates show that New Jersey's securities, commodity contracts, and investments sector supports an estimated 93,100 total statewide jobs in New Jersey, as well as almost \$11 billion of labor income to New Jersey workers and greater than \$10 billion of value added annually.

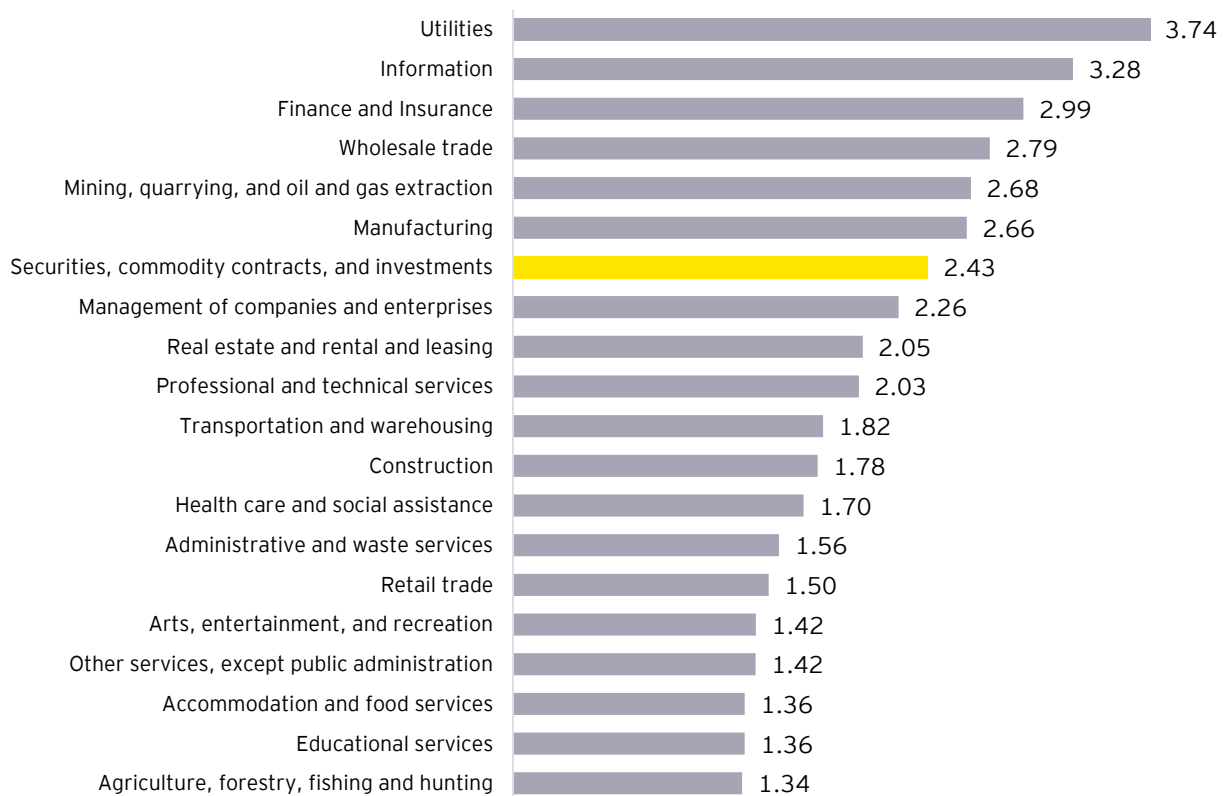
**Table 2. Economic contribution of New Jersey
the securities, commodity contracts, and investments sector, 2019**

	Employment	Labor income	Value added
Direct contribution	38,300	\$7.19 b	\$4.62 b
Indirect contribution	25,700	\$1.97 b	\$2.67 b
Induced contribution	29,100	\$1.80 b	\$3.15 b
Total contribution	93,100	\$10.96 b	\$10.44 b

Source: EY estimates based on IMPLAN model of New Jersey; amounts are rounded and may not sum for that reason

The indirect and induced contributions of the securities, commodity contracts, and investments sector is greater than the typical New Jersey industry, as measured by the employment multiplier, which is number of total New Jersey jobs supported by the sector per direct job in the sector. Figure 4 presents the employment multipliers of each major sector in New Jersey as well as the overall employment multiplier for the securities, commodity contracts, and investments sector. The multiplier of 2.43 for the securities, commodity contracts, and investments sector is 28% higher than the statewide average employment multiplier of 1.90, indicating that the high wages and in-state supplier purchases of the sector supports a higher-than-average number of total jobs in the state, as compared with other sectors.

Figure 4. Employment multiplier by industry
(yellow shaded bar represents overall employment multiplier
for the New Jersey securities, commodity contracts, and investments industries)



Source: IMPLAN model of New Jersey

The economic contributions of the securities, commodity contracts, and investments sector presented in Table 2 support state and local tax revenues throughout the state, which are shown in Table 3. This financial services sector supports nearly \$1.4 billion in annual New Jersey state and local tax revenues including individual income taxes paid by employees, household sales and property taxes, and corporate income, property, and sales taxes remitted by the industry.¹⁰ The direct tax contribution represents the largest portion of the overall tax contribution due to the relatively high compensation of the employees in the financial services sector, which contribute an estimated \$178 million in individual income tax, and the relatively high corporate tax burden faced by the financial services industry. The overall financial services and insurance sector makes outsized corporate tax payments: New Jersey financial services companies account for 7% of private-sector GDP in the state but contribute 12% of corporate business tax and fees.

Table 3. Total estimated state and local tax contribution from the New Jersey securities, commodity contracts, and investments sector, 2019
(*Millions*)

	Direct tax contribution	Indirect tax contribution	Induced tax contribution	Total tax contribution
State taxes				
Sales & excise taxes	\$183	\$50	\$46	\$278
Individual income taxes	\$178	\$49	\$44	\$271
Corporate income taxes*	\$232	\$7	\$7	\$246
Other taxes	\$32	\$9	\$8	\$48
Total state taxes	\$624	\$115	\$105	\$843
Local property taxes	\$355	\$97	\$89	\$541
Total state and local taxes	\$979	\$212	\$193	\$1,385

*Note: corporate income taxes were estimated based on 2016 data showing \$232 million in CBT paid by New Jersey finance and insurance taxpayers. The portion allocated to the sectors included in this study reflects an assumed \$0 amount for insurance companies. This amount was not increased to account for inflation. Also note that the 2016 corporate income tax liability which was the basis for this estimate was prior to NJ imposing its 2.5% surcharge effective January 1, 2018 which represented approximately a 28% increase in corporate income taxes (2.5%/9%). Direct tax contribution includes business and household taxes supported by the financial services companies included in the scope of this analysis as well as the taxes paid by their employees.

The economic contributions described above reflect the activities of New Jersey based businesses and their employees. However, there are also many New Jersey residents who are employed by the securities sector in other states. In total, nearly 80,000 New Jersey residents work in the securities sector (1.5% of the total New Jersey resident labor force).¹¹ Many of those residents are employed in the New York City metro area, meaning that the continued importance of the New York city metro area as a hub of securities sector activity is likely important to the continued employment of these residents.

¹⁰ Tax contributions were estimated based on the historical ratio of tax collections to personal income in the state based on US Census Bureau tax collection data and statewide personal income data from the Bureau of Economic Analysis, with the one exception of the direct corporate income tax amount shown in Table 3, which was estimated based on the NJ Dept of Revenue CBT report for 2016, Table 10, which shows NJ finance and insurance companies paid \$235 million in CBT taxes and fees for 2016.

¹¹ Source: US Census Bureau ACS 1-Year Estimates-Public Use Microdata Sample 2018, PWGTP weighted, New Jersey, FIN-Securities, Commodities, Funds, Trusts, and Other Financial Investments employment: 79,567; New Jersey resident labor force equals 8,908,520 total residents less 3,511,431 residents who are under the age of 16 or last held a job more than 5 years ago. Data accessed on 8 October 2020.

4. Policy and administrative issues related to a New Jersey FTT

The proposed FTT will be likely to have several impacts which are not considered in this analysis of the economic contribution of the securities, commodity contracts, and investments sector, including adverse potential tax impacts on retail investors. The FTT may:

- **Impact investors including retirement accounts and pensions.** A significant portion of the FTT would likely be passed forward to investors, including public pensions, charitable foundations, and university endowments in New Jersey. As pensions in New Jersey work to ensure they can meet return expectations, a new tax on their investments will make it more difficult for pensions in the state to fund the retirements of their beneficiaries. These investors bearing the tax would include those holding investments in retirement account and pensions, including NJ Government Pension Plans, such as PERS (Public Employee Retirement Systems) or PFRS (Police & Fireman's Retirement System).
- **Shift trading activity into untaxed states or foreign markets.** The potential New Jersey tax would apply to any transactions that are executed within the state using electronic infrastructure. Businesses would be able to mitigate the tax by relocating trading activity.

5. Limitations and caveats

The reader should be aware of the following limitations of the analysis:

- The results presented in this report show a snapshot of current economic contributions based on 2019 data. The input-output modeling approach used in this analysis shows the 2019 economic contribution of a selected group of financial services industries based on their relationships with other industries and households in the New Jersey economy. The results do not reflect the impacts of a possible industry expansion of employment into New Jersey in a post-COVID environment or the potential contraction of the industry within New Jersey resulting from the enactment of an FTT.
- Given the novelty of the FTT proposal, it is unclear how New Jersey economic activity will be impacted. As such, this study does not present potential the impacts of the proposed FTT. Instead, it presents the current economic contribution of the economic activities most likely to be impacted.
- Input-output modeling can include double counting. The input-output modeling approach used in this analysis can include double counting in its indirect and induced estimates. Financial services company suppliers or the suppliers of suppliers could be themselves financial services companies and consumer re-spending of income supported by financial services activities could be at financial services businesses. Thus, some portion of these financial services activities could be included in the indirect and induced estimates of this analysis. This limitation is due to the use of industry averages in estimating indirect and induced economic contributions in input-output modeling.
- Estimates are limited by available public information. The analysis relies on information reported by federal government agencies and company data for selected exchange companies from proprietary databases, but these databases do not provide detail regarding the degree to which each industry segment relies on electronic financial transactions conducted in the state.
- In most cases, tax contributions are estimated based on average levels of tax collections relative to statewide personal income and reflect a combination of business and household taxes. To the extent

businesses or employees reflected in the direct, indirect, or induced effects deviate significantly from the average, the estimated tax contributions may be overstated or understated.