

# The Facts On

## STOCK BUYBACKS AND DIVIDENDS



### WHY DO COMPANIES PURSUE STOCK BUYBACKS AND DIVIDENDS?



#### ANSWER

Companies rely on investment by individuals and institutions (e.g., pension funds) to finance their operations and grow. **These individuals and institutions expect a return on their money.**

**Companies must invest their profits to grow** – by expanding business lines, investing in research and development (R&D), and attracting and retaining talent.

At some point companies may run out of opportunities with growth potential to justify deploying profits. In such cases, **they often return money to shareholders via buybacks or dividends.**



### WHO BENEFITS FROM STOCK BUYBACKS AND DIVIDENDS?



#### ANSWER

A majority of U.S. households have direct or indirect ownership of stock via pensions, 401(k)s, or investment accounts, **all of which benefit from dividends and higher stock prices.** <sup>[1]</sup>

**Seniors are among the biggest beneficiaries**, with over half their income is from dividends, 401(k)s, pensions, other investments according to IRS data. <sup>[2]</sup>



### HOW DO STOCK BUYBACKS AND DIVIDENDS BENEFIT THE ECONOMY?



#### ANSWER

Money returned to shareholders via buybacks and dividends **does not disappear from the economy.** This money is often redeployed as loans to companies that are hiring and growing, is used for seed money for startups, or is used for financing for emerging technologies.

**Stock buybacks are a sign of strength** – not weakness – of the U.S. economy.



### DO BUYBACKS AND DIVIDENDS DISPLACE INVESTMENTS IN WORKERS AND CAPITAL?



#### ANSWER

Buybacks and dividends do not displace investments that firms make to grow and innovate. In 2018, when buybacks and dividends were up significantly, **U.S. business investment also grew at the fastest rate since 2011** <sup>[3]</sup>, with companies investing nearly \$3 trillion total <sup>[4]</sup>, including \$460 billion in R&D. <sup>[5]</sup>

Data show that S&P 500 companies doing buybacks during 2018 **tended to do more investment and R&D than companies electing not to do buybacks.** <sup>[6]</sup>



### WHAT ARE THE CONSEQUENCES OF DIFFERENT PROPOSALS TO RESTRICT STOCK BUYBACKS AND DIVIDENDS?



#### ANSWER

Attempts to limit buybacks and dividends **could force companies to sit on cash or waste it on low-potential projects.**

Such proposals would **undermine innovation and growth among businesses**, as well as economic security among American families and seniors.

[1] Federal Reserve, "Changes in U.S. Family Finances from 2013 to 2016: Evidence from the Survey of Consumer Finances," September 2017: <https://www.federalreserve.gov/publications/files/scf17.pdf>

[2] IRS Statistics of Income, 2016 Individual Income Tax Returns, Table 1.5, <https://www.irs.gov/pub/irs-pdf/p1304.pdf>.

[3] Business Roundtable analysis of Capital IQ data drawn from SEC filings of the S&P 500.

[4] Bureau of Economic Analysis, National Data, Table 5.3.5, Line 2: [https://apps.bea.gov/iTable/iTable.cfm?reqid=19&step=3&isuri=1&nipa\\_table\\_list=145&categories=survey](https://apps.bea.gov/iTable/iTable.cfm?reqid=19&step=3&isuri=1&nipa_table_list=145&categories=survey)

[5] Bureau of Economic Analysis, National Data, Table 5.3.5, Line 18: [https://apps.bea.gov/iTable/iTable.cfm?reqid=19&step=3&isuri=1&nipa\\_table\\_list=145&categories=survey](https://apps.bea.gov/iTable/iTable.cfm?reqid=19&step=3&isuri=1&nipa_table_list=145&categories=survey)

[6] Business Roundtable analysis of Capital IQ data drawn from SEC filings of the S&P 500.