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The Aging Population, Retirement Income and the Local Economy

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Over the past quarter of a century there have been major changes in the economic and demographic structure of the United States. In the economic realm, perhaps the most widely heralded structural change has been the shift in employment and earnings from the goods-producing sector toward the services-producing sector. Though less highly publicized and less popularly understood, another change of major significance has been the shift in personal income from earnings toward transfer payments and investment incomes. In the demographic realm, the major structural changes include the shift in population from the North to the South and West, the maturing of the "baby boom" generation, and the rapid growth in the retirement age population, popularly characterized as the "graying of America."

The growth of transfer payments, particularly those that are retirement related, represents a major and increasing source of purchasing power in many rural areas that are confronted with the decline of earnings and of employment opportunities that had been formerly provided by the traditional basic industries related to energy, mining, fishing, wood products, and agriculture. Rural communities that capture an increasing share of the retirement related transfer payments which accompany a net inmigration of retirees, can stimulate employment and incomes by encouraging local spending. In essence, the incomes of a growing retirement population can be viewed as a new and emerging basic industry for some rural areas. While this base does not often provide jobs with the same levels of average annual earnings and the same types of skills as those in declining traditional sectors, it does provide new income opportunities.

Retirement related transfer incomes are insensitive to the cyclical trends of the national economy. Therefore, communities that attract retirees, and that incorporate their transfer incomes into the community economic base, implicitly exercise a strategy of local development and diversification that fosters greater stability as well as growth. Regions that fail to retain their elderly population and capture a proportionate share of retirement related transfer, investment, and private pension incomes, implicitly relinquish an option for local economic development.

The purposes of this paper are to examine the increasing importance of an expanding elderly population and the growth of transfer payment incomes and to explore the implications of these changes. First, the evidence documenting these two socio-economic trends is examined; and then the implications of these trends for local development and public policy are discussed.

The changing age structure

In 1920, fewer than one in 20 Americans were age 65 or over.(1) Fifty years later in 1970, this ratio had almost doubled to one in 10.1. Between 1970 and 1980 the population of the elderly (65 and over) increased by almost 28 percent, more than 2½ times the 11 percent increase in the overall population. By 1980 more than one in nine Americans was age 65 and over. Increased life-expectancy is one reason for the current growth of the elderly population, but more important is the large number of births in the period prior to 1920 (Siegal and Davidson, 1884). Because the number of births declined from 1920 to 1940, the Bureau of Census projects a decrease in the growth of the elderly population between 1990 and 2030 (Figure 1). The post-World War II baby boomers will approach the age of 65 between 2010 and 2020, however, and the Bureau of the Census projects that more than one in five Americans will be age 65 or older by 2030 (Siegal and Davidson, 1984). There is little evidence to suggest a sustained abatement of the aging trend of the American population within the foreseeable future.

Persons 65 years of age and older represented 11.6 percent of the population in 1980. This age group is not uniformly distributed across the country, but rather is concentrated in certain regions and counties within regions. In nonmetropolitan counties, the elderly accounted for a higher proportion of the total population (13.0 percent) than they did in metropolitan counties (10.7). And for most counties in the Great Plains and western Corn Belt as well as selected counties in Florida, the Upper Great Lakes, the Ozarks and the Southwest, the elderly represented over 15 percent of the population (Map 1). Some of those areas have experienced significant out migration of young adults.

Growth in the elderly populations between 1970 and 1980 generally showed a different geographic pattern. Overall, the population 65 and over increased 27.3 percent in the 1970-80 decade. Counties with growth in the elderly population above the national average were concentrated in the west and southeast (Map 2). For many counties in the Southwest and Southeastern U.S., the elderly population grew at more than twice the national average. Rapid growth in the elderly population was observed in many counties of California, Nevada, the Pacific Northwest, the Gulf Coast, Appalachia, the Ozarks and the Upper Great Lakes. Many of these areas experienced significant in-migration of all age groups. However, for some counties, immigration of the elderly was a major, if not the major demographic, force of the decade.

(1) The demographic data documenting changes in age structure are from published reports of the Bureau of Census, U.S. Department of Commerce.

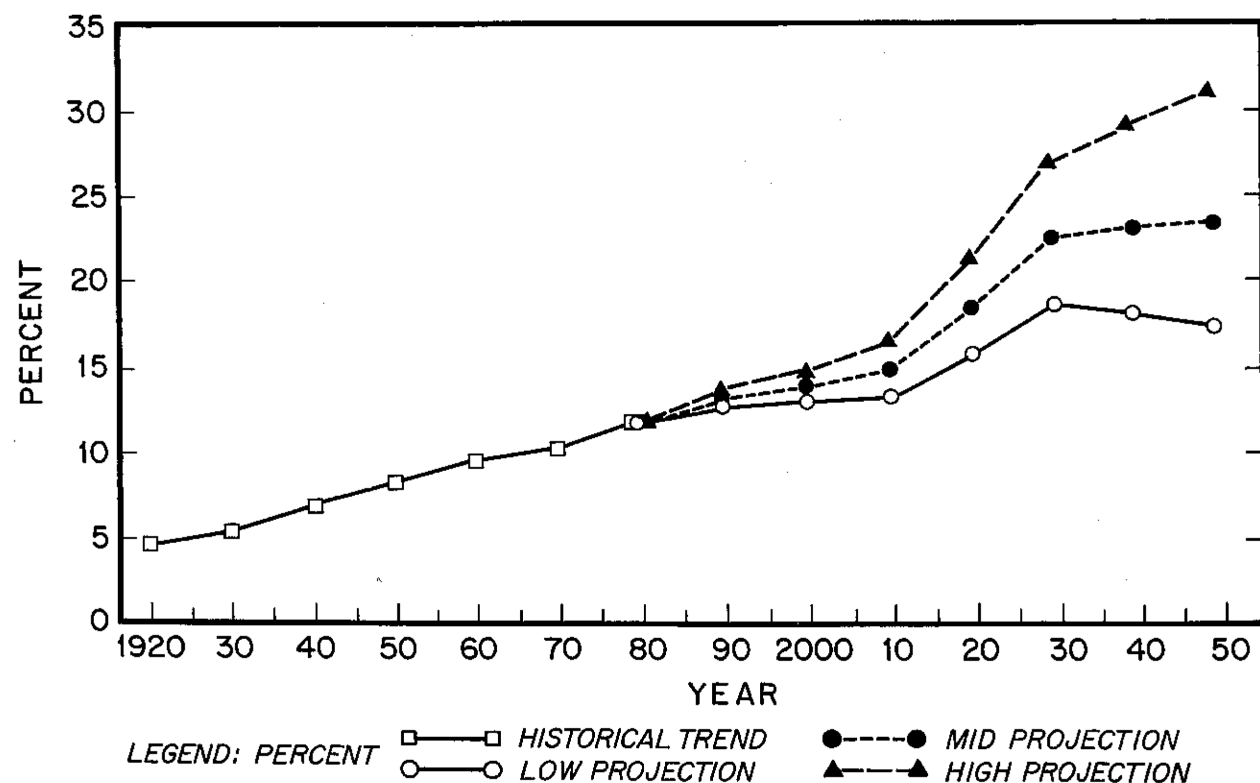
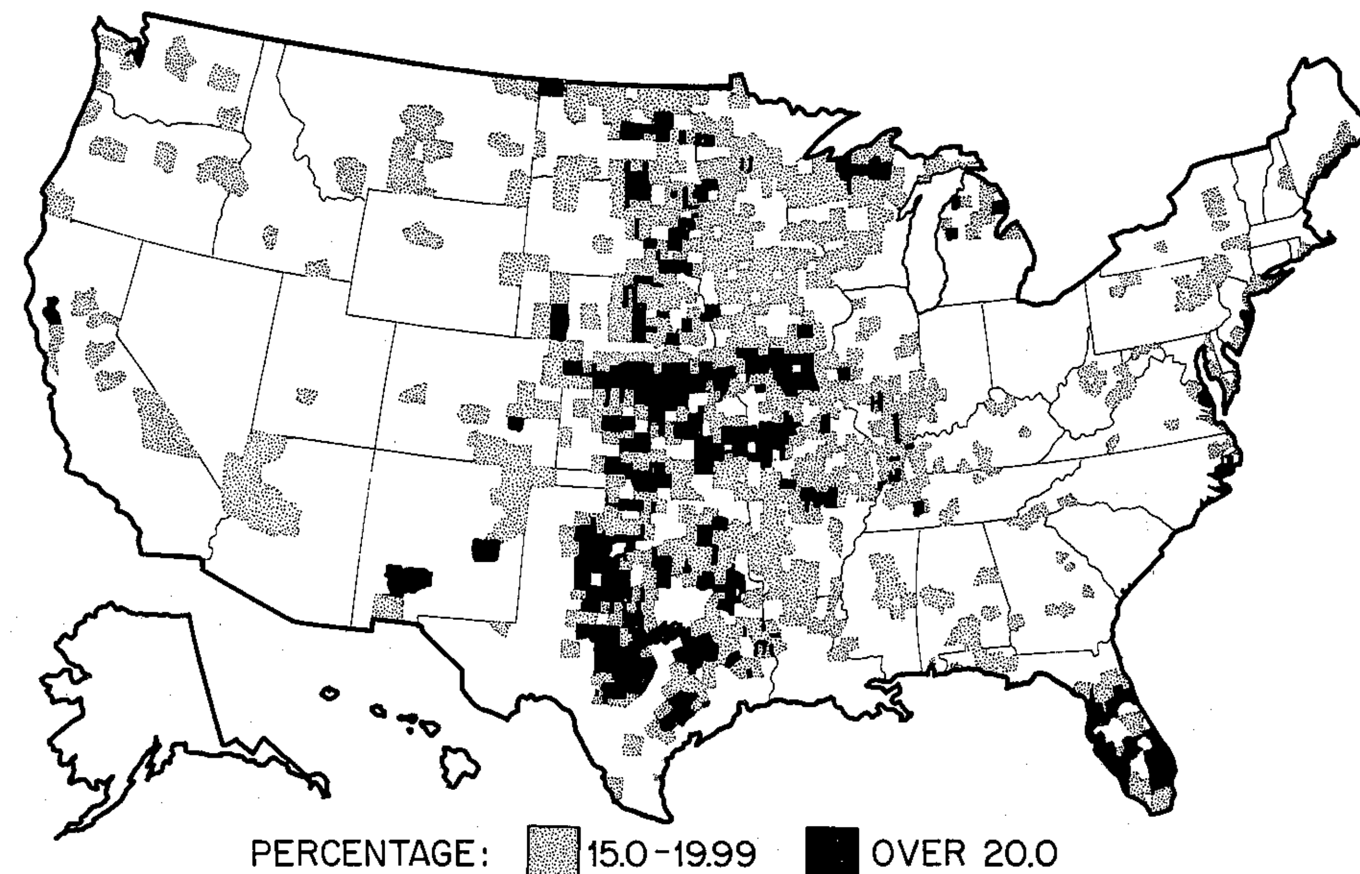
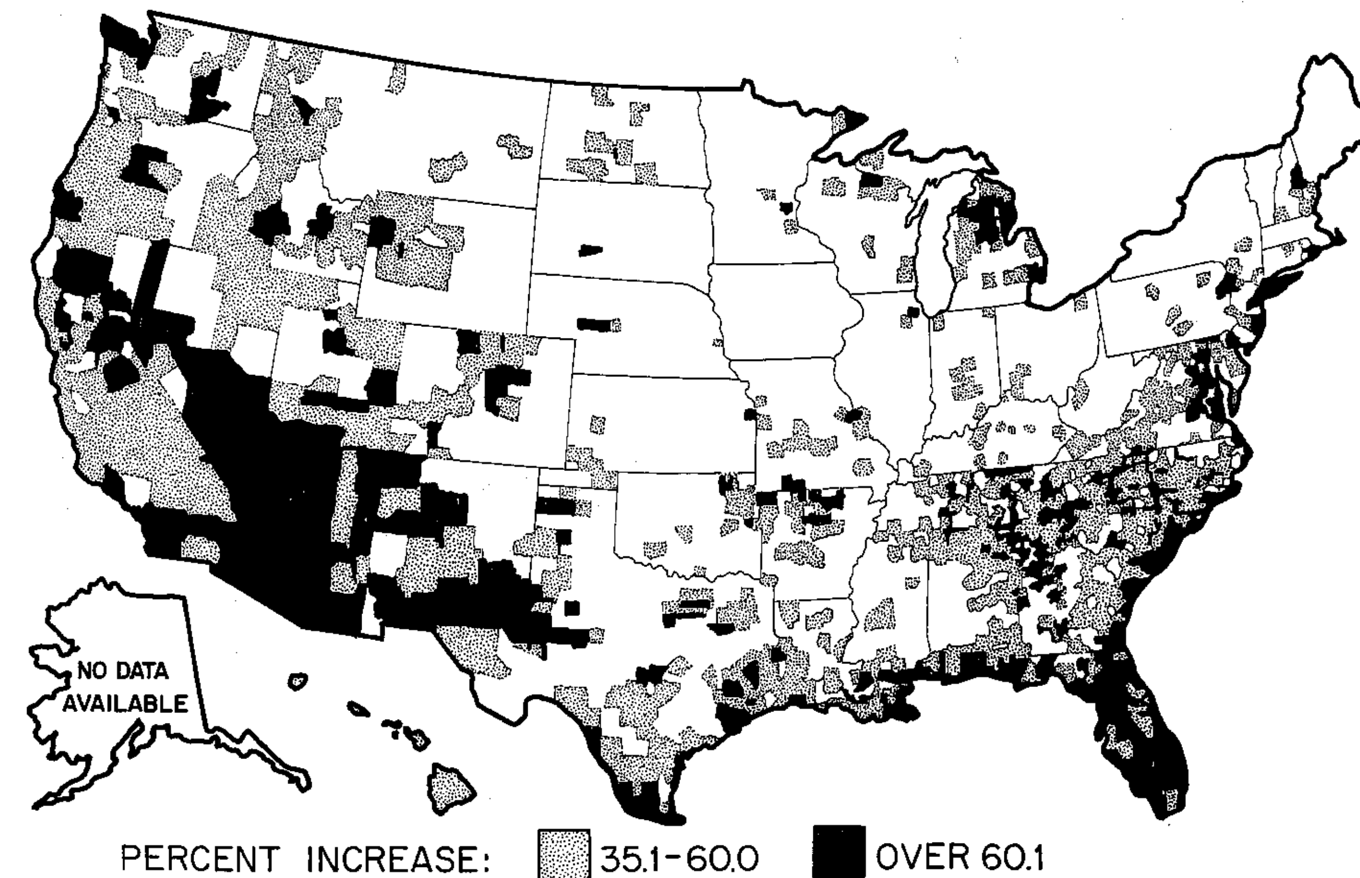


Figure 1. Percent of U.S. population 65 and over, 1920 to 2050.



Map 1. Percentage of population 65 years and older, counties with 15 percent or more, 1980. *Source:* U.S. Senate, 1984



Map 2. Aging population growth, counties with 35 percent or more increase in residents 65 years and older 1970-1980. *Source:* U.S. Senate, 1984

The changing income structure

Among the three major U.S. personal income categories, transfer payments are the fastest growing, and in real terms, registered an almost 313 percent increase between 1962 and 1984 (Figures 2 and 3).(2) Investment incomes, in the form of dividends, interest, and rent, increased by 224 percent, while net industry earnings, inclusive of net wages and salaries and proprietors' income, increased only by 95 percent. As a result of the differential growth among these categories, transfer payments as a share of total personal income increased dramatically over this 20 year period, from 7.7 to 13.8 percent in the U.S. Investment incomes, in turn, increased their share from 13.5 to 19.0 percent, while net industry earnings declined from 78.9 to 67.7 percent. From another perspective, transfer payments were just over one-half the level of wage and salary and proprietors' earnings from the durable goods manufacturing sector in 1962, while they were over one-fourth greater in 1984. These figures reflect a fundamental change in the composition of personal income in the American economy.

(2) The data reported in this paper documenting the structural changes in the composition of national, state and county personal income are from unpublished computer tapes provided by the U.S. Bureau of Economic Analysis (1986B,1986C). Real (constant 1972 dollars) estimates of incomes to remove the effect of inflation are computed using the Implicit Price Deflator for Personal Consumption (1972 = 1.00).

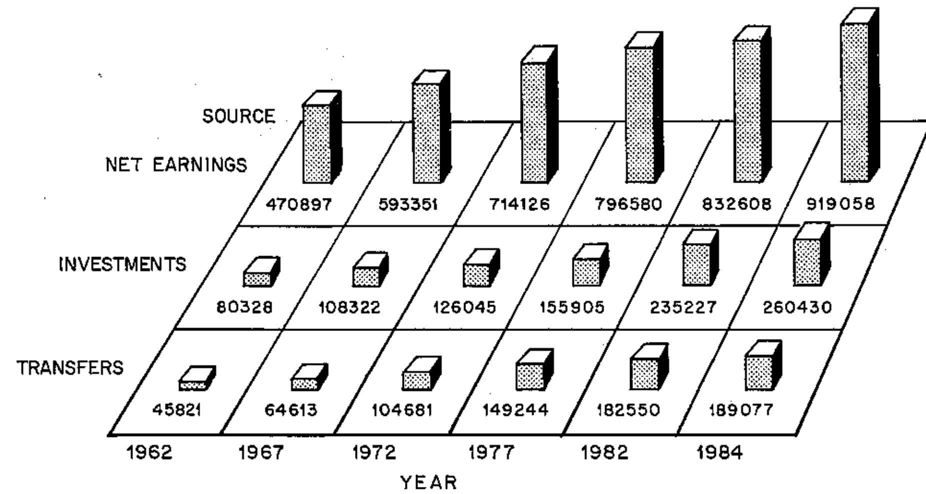


Figure 2. Major sources of U.S. personal income 1962 to 1984. (millions of constant 1972 $'s)

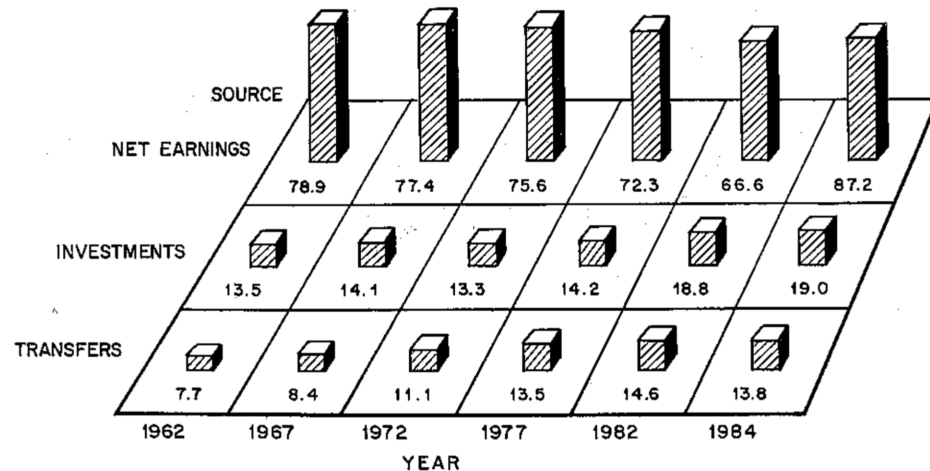


Figure 3. Major sources of U.S. personal income 1962 to 1984. (a percentage comparison)

Transfer payments

Transfer payments are "income payments to persons, generally in monetary form, for which they do not render current services." (U.S. Bureau of Economic Analysis, 1986A. Transfer payment programs are classified into four broad categories: (1) retirement and related, (2) unemployment insurance, (3) public assistance, and (4) miscellaneous.

Nationally, 1984 per capita transfer payments were $1,765, representing a 13.8 percent share of total personal income (Table 1).

Significant regional disparities in the relative importance of transfer payments are revealed merely by comparing differences between the nation's metropolitan and nonmetropolitan areas. In per capita terms, transfer payments were slightly higher in metro ($1,774) than nonmetro ($1,734) counties. However, as a percentage share of total personal income, transfer payments are notably more important to the nonmetro (17.2 percent) than the metro (13.0 percent) counties. Accounting for part of this disparity is the lower per capita income of nonmetro regions. The average per capita income of metro areas was more than one-third higher than that of nonmetro areas in 1984. Therefore, transfer payments constitute a larger share of a comparatively smaller pie for the nation's nonmetro areas.

The composition and importance of retirement transfer payments, 1984

More than three-fourths (78.4 percent) of all transfer payments in 1984 were retirement related. Furthermore, the retirement related components of transfer payments were a generally increasing share of personal income over the period 1965-84 (Figure 4), accounting for 10.8 percent of personal income nationally in 1984.

Retirement and related programs include social security, medical payments and specific retirement programs for railroad workers, Federal civilians, military personnel, and state and local government employees (Figure 5).

Retirement-related transfer payments are the single most important source of income for the 65 and over population.

Table 1. Transfer payments per capita and as a percentage share of total personal income, 1984.

	Transfer Payments Per Capita	Percent of Income	Per Capita Income 1982
U.S.	$1,765	13.82	$12,772
Metro Counties	1,774	13.04	13,603
Nonmetro Counties	1,734	17.18	10,092

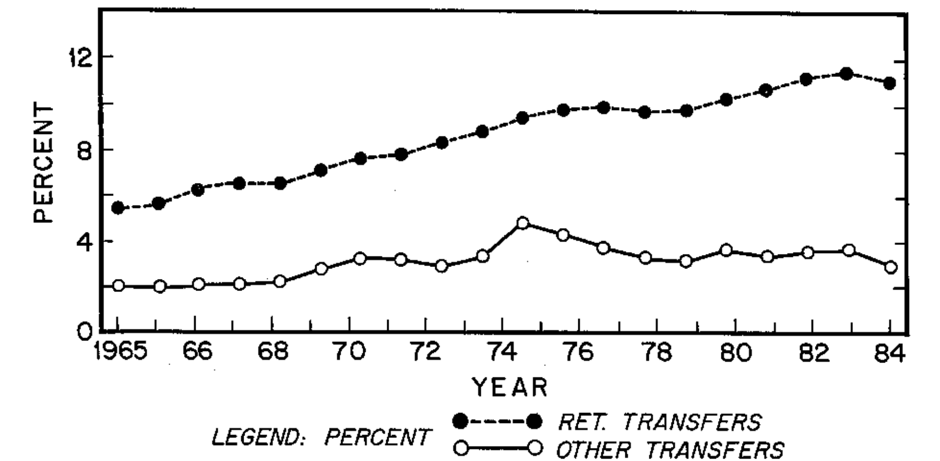


Figure 4. Major sources of transfer payments as a percentage of total personal income: U.S., 1965-1984

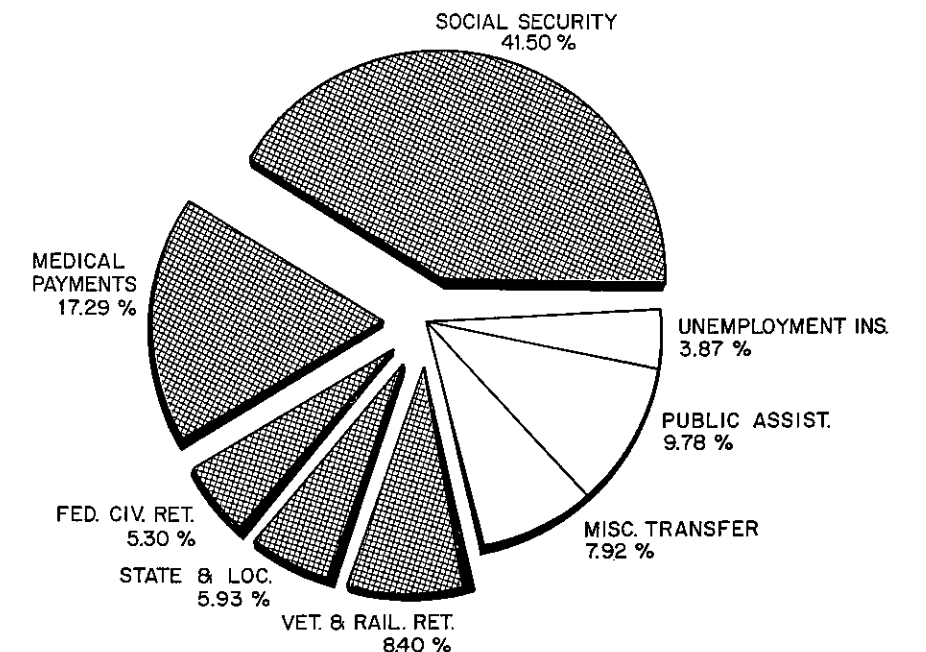


Figure 5. Major sources of U.S. transfer payment income, 1984.

However, investment incomes, private pension benefits, and wage and salary earnings also account for substantial proportions of the income for this age group. Retirees, therefore, controlled a greater proportion of 1984 total personal income than the 10.8 percent share reported here as retirement-related transfers.

Although retirement transfer payments per capita were slightly less in nonmetropolitan than in metropolitan counties, the share of personal income from transfer payments was higher in nonmetro counties because of the lower per capita incomes in these counties (Figures 6 and 7).

In Table 2, retirement-related programs are divided into general programs and specific employee programs. General programs are further disaggregated into two components, Social Security payments and medical payments. Under specific employee retirement programs, the following are reported: (1) railroad retirement; (2) Federal civilian retirement; (3) state and local government retirement; and (4) veterans retirement.

A comparison of metro and nonmetro areas (Table 2) also reveals differences in the composition of retirement-related transfer payments. In particular, Social Security is generally more important to nonmetro as compared to metro regions, while an opposite pattern holds for specific employee retirement programs.

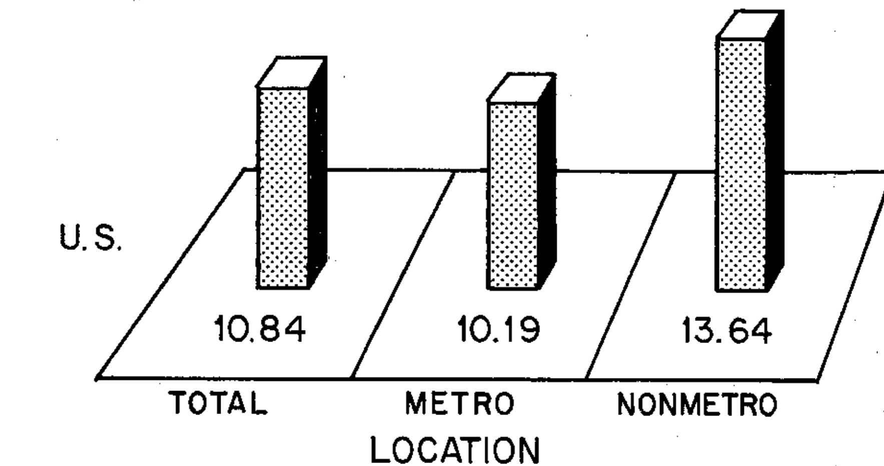


Figure 6. Retirement related transfer payments, 1984: Percentage share of total personal income.

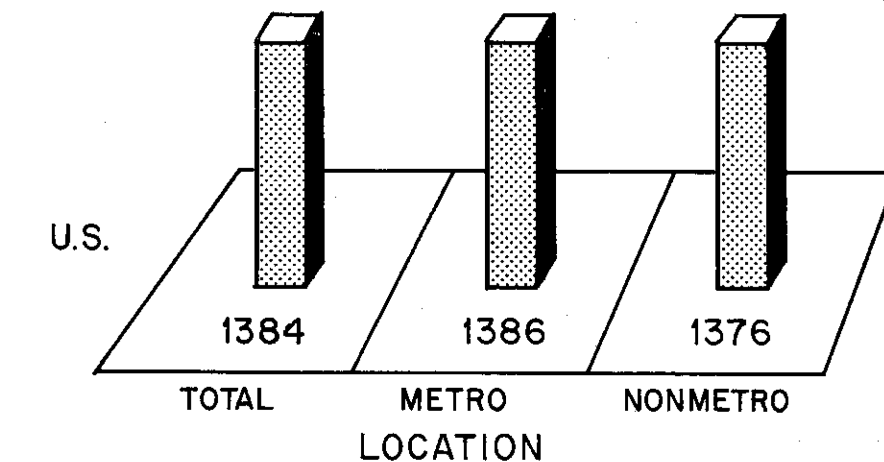


Figure 7. Retirement related transfer payments per capita, 1984.

Table 2. Retirement and related programs as a percentage of total transfer payments, 1984.

	U.S.		
	Total	Metro	Nonmetro
Retirement and Related Programs	78.43	78.14	79.37
General Programs	58.79	57.84	61.96
Social Security	41.50	40.33	45.40
Medical Payments	17.29	17.51	16.56
Specific Employee Programs	19.63	20.31	17.42
Railroad Retirement	1.45	1.35	1.79
Federal Civilian	5.30	5.64	4.20
State & Local Government	5.93	6.42	4.33
Veterans Military	6.94	6.90	7.09

Growth in retirement transfer payments, 1966-1984

Between 1966 and 1984 U.S. transfer payments grew at an average annual rate of 7.10 percent (Table 3). This growth rate is measured in constant dollars and reflects "real" growth adjusted for inflation. This real rate of transfer payment growth is two and one-half times the real growth rate of industry earnings, which explains in part the near doubling of transfer payments as a percentage share of personal income over the last two decades. Even more notable, is that average annual real per capita transfer payments (Table 4) grew more than three times faster than average annual real per capita industry earnings (5.98 vs. 1.78 percent) over this same time period.

There are no substantial differences between metro and nonmetro counties in growth rates of total or per capita transfer payments.

Total and per capita investment incomes are also growing faster than earnings, and at a rate much higher in nonmetro than in metro counties. These are significant sources of income for people of retirement age.

Issues and implications for local economies

Retirement-related transfer incomes and investment incomes constitute a substantial and increasing source of purchasing power for consumer goods and services. An advancing age structure and the growth of retirement-related incomes have important implications for local growth and development, and for the policy issues confronting local planners and policy makers.

Local development implications

While it is well known that jobs attract people, it is often overlooked that people attract jobs, "especially people with money," as Summers and Hirschl (1985) observe. A comprehensive economic development strategy directed toward attracting a new firm to a community will give careful attention not only to the potential direct effect of the new jobs and payroll created by a new firm, but also to the potential for enhancing the indirect or "multiplier" effect that can result from the local re-spending of the dollars the firm may bring into the community. Similarly, counties and communities that capture a share of the growth in retirement-related transfer incomes that accompany a net in-migration of retirees, can expand local employment and incomes by encouraging local spending of the dollars brought into the community from this source. Retirees generally channel their spending toward food, housing, and the services-producing sector. Included in the latter are recreation, retailing, health, transportation, and financial, legal, and personal services. Personal services encompass activities ranging from landscaping to hairdressing. Consumer behavior studies indicate that the elderly have a high propensity to spend in local markets when the goods and services they desire are available. Therefore, compared to other age groups, their spending has a high income multiplier (Summers and Hirschl, 1985).

Furthermore, evidence suggests that the elderly as a group are no longer relatively disadvantaged as compared to 25 years ago. For example, 32.5 percent of persons 65 and over lived in poverty in 1959, compared to 20.9 percent for persons under 65—a ratio of 1.68 to 1. In 1983, however, the poverty rate for the two age groups was 14.1 and 15.4 percent respectively—a ratio of 0.92 to 1 (Economic Report of the President, 1985, p. 166). Per capita after tax incomes of households with elderly heads, furthermore, were higher than the national average. And elderly households had more per capita spendable discretionary income than any other age group (Linden, Green, and Coder, 1986).

Since the 1960's there has been a continuing net migration of persons 65 and older from metro to nonmetro areas. Elderly people migrating during the late 1970's from metro to nonmetro areas were more affluent, and had a lower rate of poverty than those who did not migrate (Glasgow and Beale, 1985, pp. 23-24).

Table 3. Growth in real personal income: Average annual percent change 1966-1984

	Total	Transfer Payments	(Retirement Transfers)	Investment Incomes	Net Industry Earnings
U.S.	3.66	7.10	(7.50)	5.25	2.86
Metro	3.61	7.16	(7.54)	5.01	2.87
Nonmetro	3.89	6.93	(7.35)	6.35	2.81

Table 4. Growth in real per capita personal income by source: Annual average percent change 1966-1984

	Total	Transfer Payments	(Retirement Transfer)	Investment Incomes	Net Industry Earnings
U.S.	2.57	5.98	(6.37)	4.15	1.78
Metro	2.48	5.99	(6.37)	3.86	1.75
Nonmetro	2.96	5.97	(6.39)	5.39	1.88

Elderly persons bring with them Social Security and other retirement-related transfer payments, private pensions and dividends, interest, and rent. Such non-labor income sources amplify the economic potential of regions receiving retirees. The incomes of retirees augment the economic base of the area in which they choose to reside. Regions that fail to capture retirement-related incomes by failing to retain their retirement age population, implicitly forego an important opportunity for enhancing the local economic base, and thereby relinquish an option for local economic development.

New-accounts managers of banking institutions in retirement communities have observed that substantial transfers of financial assets accompany the migration of retirees. A 1983 consumer finance survey found that the average asset level of elderly families was higher than that of younger families (*Economic Report of the President*, 1985, pp. 168-69). If supported by the policies of local financial institutions, such assets serve as a source of investment funds for fostering the formation and expansion of local business enterprises. Direct investment in local businesses is also undertaken by retirees.

The elderly are often active participants in the volunteer and paid labor force of their communities. For example, almost one in five males over 65 were in the labor force in 1981 (Seigal and Davidson 1984). Part-time work is very common among the elderly population, making this population a potential source of flexible and experienced workers.

The retirement related components of transfer payments are less sensitive than others to fluctuations in the national business cycles. Counties and communities that capture an increasing share of transfer incomes by attracting and retaining the retiree population can overtly exercise a strategy of local development and diversification that contributes toward economic stability as well as growth (Smith, 1986).

Taxes and public service implications

Retirement age populations are more likely to demand certain public services, such as public transportation or emergency medical services, than younger populations. Provision of these public services may place additional financial obligations on the local public sector. There are notable differences between the extreme aged and younger members of the elderly age group in the need for health care and institutional housing (Siegal and Davidson, 1984, p.104).

Elderly people may be less supportive of local tax increases than the younger population. In a study of migrants from metropolitan areas in fast growing nonmetro counties in the midwest, researchers found that older migrants were less willing to pay higher taxes for community improvements than younger migrants (Glasgow 1985, p. 8).

Resource managment implications

Rising standards of living have enabled more elderly people to select locations for retirement residence based on their preferences for environmental, social, and recreational amenities. Many of the counties which have experienced the highest growth in transfer incomes and in elderly population, are nonmetro (Map 2). The attraction of elderly retirees to the amenities associated with the natural environment of rural regions, introduces added pressures on local public policy decision makers, who must achieve a balance between private and public interests with regard to the utilization and management of natural resources (Salazar, et al., 1984). Local government planners, for example, may encounter vocal, politically active in-migrant retirees with a concern for, and a vested interest in, the outcome of local decisions about industrial development, land use, and resource conservation and management practices. Private agricultural, lumber, fishing, mining, and commercial interests must cope with this new source of competition for use of natural resources, over which they have traditionally exercised a dominant influence. Particularly in many counties in the western U.S where a major share of land is under Federal government control and ownership, public agencies such as the Forest Service and the Bureau of Land Management must also adapt to a new set of interests that are competing for access to the natural resources under their jurisdiction.

Summary

Changes in the demographic and economic structure of American society have major implications for the pattern of regional economic growth and stability.

Changes in the age structure of American society have accompanied the structural changes in the composition of total personal income, and projections indicate that the aging of our population has not peaked, but will extend well into the twenty-first century.

*In 1920 fewer than 1 in 20 Americans were age 65 and over, compared to 1 in 9 in 1984; by 2030 it is estimated that 1 in 5 Americans, or 20 percent of the population, will be 65 or over.

*Between 1970 and 1980 the increase in population aged 65 and over was 27.3 percent; the percentage increase of elderly population was greater in the nonmetro counties than the metro counties. One of the most prominent economic structural changes is the shift in the composition of the major categories of personal income away from earnings and toward transfer payments and investment incomes.

*Between 1962 and 1984 real (inflation adjusted) transfer payments increased by 313 percent, and dramatically increased as a share of total personal income from 7.7 percent in 1962 to 13.8 percent in 1984. Over the same period investment incomes increased by 224 percent, and expanded from 13.5 percent to 19.0 percent as a share of total personal income.

*Real net industry earnings increased by only 95 percent between 1962 and 1984, and contracted as a share of total personal income from 78.9 percent in 1962 to 67.2 percent in 1984.

*Transfer payments per capita were higher in metro counties than nonmetro counties in 1984. However, average per capita incomes were more than $3,000 lower in nonmetro counties as compared to metro counties; thus transfer payments comprised a higher share of the total personal income in nonmetro counties than in their metro counterparts.

*The retirement related components of transfer payments accounted for over 75 percent of total transfer payments in 1984, and also comprised a higher share of the total personal income of non-metro counties.

*Retirement age persons control a significant share of national income. Retirement-related transfer incomes alone comprised 10.8 percent of total personal income in 1984. Such payments do not include the investments and private pension incomes of retirees.

In community economic analysis and in economic development planning, the importance of the retirement age population and the contribution of retirement transfer, investment, and private pension incomes to the local economy should be noted. Though it is not a costless strategy, economic development planners can profitably raise questions about how local communities may more effectively retain, attract and accommodate such populations for the net benefit of the local economy.

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APPENDIX A

Description of retirement and related transfer programs

General retirement programs. The general retirement programs (social security and medical payments) do not require previous employment in a specific type of job, but are paid to those who have worked in a variety of industries, and to their survivors. Social Security (Old-age, Survivors and Disability Insurance or OASDI) accounted for 41.5 percent of all transfer payments in 1984. This program pays monthly benefits to retired workers, dependents, and survivors, and special payments to those 72 and over; lump sum payments to survivors and disability payments to workers and their dependents. Social Security is financed by payroll taxes and a tax on the earnings of the self-employed.

Although workers compensation payments and certain other government disability insurance and retirement payments are included, nine-tenths of the medical payments reported as transfer income in this report are for Medicare (National Medical Insurance). Medicare consists of two programs; hospital insurance and supplemental medical insurance. Hospital insurance is funded largely by payroll and self-employed earnings taxes. Medical insurance is funded with premiums paid by eligibility recipients; supplemental medical insurance premiums are paid by state and local governments for the elderly receiving public assistance. When it was enacted in 1965, Medicare was designed for the aged, but coverage was extended in 1972 to Social Security recipients and to disabled railroad retirees, among others. Nonetheless, almost 90 percent of those enrolled in the Medicare program in 1981 were age 65 or over (U.S. Bureau of the Census 1984, p. 385). Medical payments accounted for 17.3 percent of all transfer payments in 1984.

Federal civilian retirement is paid to qualified Federal employees who retire because of age or disability, and to certain survivors of Federal employees. This retirement program, funded by payroll deductions matched by the Federal government, constituted 5.3 percent of transfer payments in 1984.

Specific retirement programs. Retirement programs for specific categories of employees comprise almost 20 percent of all transfer payments. The largest of these are the veterans' pensions and the compensation from military retirement that is paid to certain veterans and their survivors, and to members of the armed forces and their dependents upon retirement. This program, which is funded by annual appropriations, accounted for 7.0 percent of all transfer payments in 1984.

State and local governments have retirement programs which cover their employees. These systems generally allow for retirement as well as disability, and accounted for about 5.9 percent of transfer payments in 1984.

The Railroad Retirement Act of 1937, which is funded by payroll taxes, general revenues, and transfers from the social security fund, provided a retirement program for retired or disabled railroad workers and survivors of deceased railroad workers. This source of income accounted for about 1.5 percent of total transfer payments in 1984.

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