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Retirees as a Growth Industry

The aging of America means business opportunities for communities to expand their jobs base and serve their older citizens better. Most retirees have sufficient incomes which they prefer to spend in their own communities. The authors present some general suggestions as well as specific examples of what communities are doing to tap this source of local income.

Retirees with their pensions and investment incomes represent a major source of dollars flowing into a community, and therefore an economic asset for community economic development.

Pensions and social security payments were the leading source of income growth between 1968 and 1975 for more than 1,000 counties. At least half of all retirees have additional income from property, investments, and other nonwage sources, adding to the economic impact on their communities. The growth in transfer payments has not peaked and may not until the next century as the graying of America continues. The elderly, with their nonwage incomes, are indeed a growth industry meaningful to rural development.

As life expectancy increases, more people live to retirement age. Moreover, those who reach retirement are living to enjoy more years of leisure, financed by unearned income (pensions, Social Security, and property incomes). The major growth years in the elderly population have not arrived. The post-World War II baby boom will lead to a growing percentage of elderly. Most of the baby boom generation will reach age 65 between 2010 and 2030.

In 1960, fewer than 1 in 10 Americans was over 65. This ratio gradually increased to just over one in nine in 1980, and will continue to rise to about one in seven in 2010. The number of Americans over age 65 will increase by 64 percent between 2010 and 2030 and will account for one-fifth of the population at the end of that 20-year period (fig. 1).

Unearned Income Mostly Pensions, Not Welfare
Unearned income (pensions, investments, and government transfers) made up 33 percent of personal income in 1982, up from 20 percent in 1960 (table 1). Thus, unearned income represents a substantial and increasing percentage of total demand for consumer goods and services.

The rise in unearned income is a legacy of two separate forces. First, cash transfer programs instituted by the Federal Government during the 1930's expanded during the 1960's and 1970's. This expansion represents increased commitment by government to social welfare. Most transfer dollars are paid through Social Security and related retirement programs.

Second, widespread prosperity has enabled people to invest a share of their total income. Interest from bank deposits is the main component of the increase in investment income. Between 1960 and 1981, interest from bank deposits rose from 6.2 to 13.6 percent of personal income.

Communities where transfer payments are a large share of personal income are not necessarily "welfare havens." Public assistance payments amount to no more than 2 percent of personal income in any U.S. region. Retirement and related programs make up two-thirds of the transfer payments. Half of all cash transfer payments in 1977 were made through general retirement programs, namely Social Security and Medicare. Specific employee retirement programs contributed another sixth.

The difference in dollar volume between retirement and public assistance programs is not their only distinguishing factor. Public assistance is an income maintenance instrument and payments are usually minimal, on the assumption that interruptions in income earnings are temporary. Consequently, public assistance payments are not potential development instruments. By contrast, transfer payments from unearned income usually involve larger per capita payments, the payments are not temporary, and often recipients also have property income. In total, transfer payments make up a substantial proportion of total personal income. Thus, retirement income often constitutes a good base for economic development.

Translating Retirement Income into Local Jobs
Retirement income can lead to job growth in the same way that industrial payrolls generate jobs.
Retirees spend their pensions in the local economy, creating a demand for goods and services. Retirees with reasonable incomes who live in rural areas can strengthen local economies by improving the demand/supply ratio for goods and services. When the demand/supply ratio becomes more favorable for investment and employment, capital and labor often follow, stimulating economic growth and attracting people to the area. People follow jobs. The obverse is also true and often overlooked; jobs follow people, especially people with money.

Several studies have documented that growth in retirement income creates jobs in rural communities.

University of Missouri economist Floyd Harmston found that every $1.00 spent locally by retirees in Vandalia, Mo., generated an additional $1.22 of local income and business revenue. (In technical language, retirement cash transfers had a multiplier effect of 2.22.) The elderly, with an aggregate income of $5 million, in a central Oklahoma community created almost an equivalent amount through the multiplier effect, according to economists Gerald Doeksen and Vandessa Lenard.

In Kentucky, Eldon Smith estimated that one new job results from each $4,425 of transfer income. Almost $4,000 of Social Security payments is sufficient to create a job in the local economy, according to our regression analysis of 170 rural U.S. counties. This amount sharply contrasts with the need for $91,743 in manufacturing payroll or $64,516 in agricultural sales to produce one job.

### Table 1—U.S. transfer payments increased tenfold in last 20 years

<table>
<thead>
<tr>
<th>Type of income</th>
<th>Unit</th>
<th>1960</th>
<th>1970</th>
<th>1980</th>
<th>1982</th>
</tr>
</thead>
<tbody>
<tr>
<td>Wage and salary</td>
<td>Bil. dol.</td>
<td>272</td>
<td>549</td>
<td>1,357</td>
<td>1,568</td>
</tr>
<tr>
<td></td>
<td>Percent</td>
<td>67.7</td>
<td>67.7</td>
<td>62.7</td>
<td>60.8</td>
</tr>
<tr>
<td>Proprietors' income</td>
<td>Bil. dol.</td>
<td>47</td>
<td>66</td>
<td>116</td>
<td>109</td>
</tr>
<tr>
<td>(farm and nonfarm)</td>
<td>Percent</td>
<td>11.7</td>
<td>8.1</td>
<td>5.4</td>
<td>4.2</td>
</tr>
<tr>
<td>Investment income</td>
<td>Bil. dol.</td>
<td>52</td>
<td>111</td>
<td>352</td>
<td>482</td>
</tr>
<tr>
<td>(rents, dividends, interest)</td>
<td>Percent</td>
<td>12.9</td>
<td>13.9</td>
<td>18.3</td>
<td>18.7</td>
</tr>
<tr>
<td>Transfer payments</td>
<td>Bil. dol.</td>
<td>29</td>
<td>80</td>
<td>298</td>
<td>375</td>
</tr>
<tr>
<td></td>
<td>Percent</td>
<td>7.2</td>
<td>9.9</td>
<td>13.8</td>
<td>14.5</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>Bil. dol.</td>
<td>402</td>
<td>811</td>
<td>2,165</td>
<td>2,579</td>
</tr>
</tbody>
</table>

1 Included in farm proprietors' income are payments to farmers under several Government agricultural payment programs. These programs are not classified under transfer payments by the Bureau of Economic Analysis, and are considered part of gross farm income.

2 Not all categories of income are included, so the columns do not sum to the total. Not included are 'other labor income' and social insurance contributions.

Why are retirement incomes more effective and efficient in creating jobs than traditional industries? Granted, the effect of retirement incomes may be somewhat overstated because we and Smith assumed that all income came from pensions. We know retirees have incomes other than pensions, and by leaving that other income out of the analysis we attributed all the effect of their total spending to their transfer income. But even if we accept that amount as half their income and therefore double the dollars needed from transfer income to create one job, the effect is still impressively greater than the effect of traditional industry payrolls and sales. So the question remains, why?

Less leakage is the answer: the elderly spend more of their income in the local economy and less of their income is taxed because of a variety of tax breaks. For example, the elderly receive a double personal exemption on their Federal income tax. Thus, an important leakage from the local economy is plugged through reduced taxation by State and Federal Governments.

Four Ways To Capture Spending by the Elderly

There are at least four ways that non-wage retirement income can benefit a local economy: (1) it can directly increase the demand for goods and services in local markets; (2) it can be used directly as a source of investment funds for local enterprises; (3) it constitutes a growing market for exportable goods and services; and (4) it is an enormous capital pool, which can provide development funds for local projects.

Capture Local Consumer Spending.

More purchases by the elderly can be captured in the local economy if the community caters to their needs. Retired people need housing, health services, retail stores, personal services, and banking services. Studies of consumer spending show convincingly that elderly people spend more of their income on these items than do others. The elderly are more inclined to make their purchases in the local market when the goods and services are available.

The question of how to capture these dollars is a standard market analysis problem. What goods, services, and investments are purchased by the elderly? Where do they purchase them currently? Are their unmet needs sufficient to encourage commercial investment?

Many communities meet the needs of the elderly and stimulate new jobs with a variety of creative marketing efforts. Home delivery of all sorts of services is one innovation (or rediscovery of discarded marketing techniques). For example, retirees in many communities can now obtain laundry pickup and delivery, and home delivery of groceries, hot meals, hairdressing, barbering, housecleaning, reading of newspapers, magazines, and books, and other personal services.

Home-delivered health services are also available. The visiting nurse program has been successful. There is opportunity for expansion; home delivery of health services is not just for old people on welfare. Many retirees are financially able to pay for such services.

Mass communication can enhance retail shopping by the elderly who have transportation problems. For example, in Sauk City-Prairie du Sac, Wis., listeners use a local radio show to telephone in offers of goods and services or to solicit them. Participants include many elderly persons, local merchants, and other community residents.

Housing developments for the elderly can be much more than the traditional old folks home. Many communities have condominium complexes offering most essential basic services. In such a retiree development in Cape Girardeau, Mo., one roof covers the condo-apartments, grocery, barber/beauty shop, florist-card-sundy shop, pharmacy, cafeteria, chapel, hospital wing, recreation facilities, and a management office providing assistance with a wide range of personal needs. It is a small-scale, practically self-contained, community.

Form Local Capital Funds. In 1980, the American Association of Retired Persons (AARP) created the AARP Money Market Trust as a service to its members. Two years later, the trust was the fourth largest of its kind in the United States with assets of $4.1 billion. There were 650,000 investors with an average holding greater than $6,300. These investment dollars are siphoned out of local economies. Very little of this capital flows back into local economies; when it does, the cost of borrowing has risen by several percentage points.

Capital shortages and insufficient capital formation are myths. The problem is the distribution of capital between geographic areas and sectors of the economy. Increased availability of capital for local enterprise development requires banking and tax policies that will make local capital funds competitive. Some of these necessary modifications are already underway.

Community economic developers can alert local investors to the benefits of local capital funds for use in their own community. The local banker and savings and loan manager should be early converts. Local entrepreneurs need to believe their enterprise is a worthy investment and be prepared to demonstrate the soundness of their enthusiasm. Hence, the road to capturing the elderly’s investment money by forming local capital funds could lead to business expansion and new business formation.

Capture Markets Oriented to the Elderly. Retirees are a strong consumer market. Economic development planners should think beyond only those transfer payments and property incomes received by local residents. This income, viewed collectively, across many communities, has real potential for local enterprise.
There may be too few elderly consumers in a single community to support an enterprise oriented to the local market. But, a local enterprise could "export" its product to the larger regional or even national market of retirees. Many of the goods and services used by retirees originate from regional centers, which need not be large cities. There is no reason why a nationally circulated magazine for the elderly must be published and produced in New York. It could be done just as well in Baraboo, Wis. This argument is true for many of the goods and services destined for the elderly market.

Use Pension Funds for Local Projects. Pension funds are gigantic capital sources. Even though the fund offices may be in New York, Pittsburgh, Houston, or Detroit, their managers may be interested in development projects in Potosi, Rhinelander, Council Bluffs, or Billings. Funds managers may formerly have been reluctant to consider small-scale community economic development projects. But, they now recognize the trends toward decentralization of people, political power, and economic activities, and encouragement of self-help.

The Wisconsin legislature recently passed a bill requiring the State Employees Retirement Fund to dedicate 10 percent of its investments annually to economic development within the State. The bill was vetoed for reasons unrelated to its merit, but the idea is sound and likely to reappear there and in other statehouses.

Another example comes from Missouri. The Community Mortgage Trust was recently formed in St. Louis as a joint venture of the Homebuilders Association and the Mercantile Trust. The trust brings together pension fund officials and home mortgage lenders. This is "the first time there has been a concerted effort to bring various lenders together with various pension funds and to try to mix and match their needs," says Beth Van Houten of the Federal National Mortgage Association (AARP News Bulletin, Jan. 1983).

Conclusions
One must think globally and act locally to capture more of the non-wage incomes of the elderly and organize them for community economic development. National and regional trends in the size and structure of transfer payments and property incomes must be studied to identify potential markets and capital sources. There are unanswered questions requiring more study to determine how demographic changes reshape communities. For example, we do not know what effects a large retiree population may have on local public investment decisions. Similarly, we cannot say whether the presence of retirees willing to perform volunteer and part-time work restricts local labor market opportunities for younger persons.

However, cash transfer payments, property income, and other unearned incomes of retired Americans can be a significant factor in a comprehensive strategy for community economic development.