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The Elderly and Their Sources Of Income: Implications for Rural Development

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SUMMARY

Transfer payments (largely from government programs), and property income (dividends, interest, and rent), have become large sources of income and are particularly important to the elderly. According to the new Survey of Income and Program Participation (SIPP), these sources provided about a quarter of total income in the early 1980s. Nationally, households with an elderly head receive nearly half of the income from transfers and property, although such households form only 21 percent of total households. Obviously, the elderly's large transfer and property income can have an important impact on nonmetro areas that can attract migrating elderly. It also can be important in nonmetro areas where the elderly form a large share of the population because of outmigration of younger people.

Many elderly are poor, however, particularly in nonmetro areas. For some nonmetro areas, finding ways to provide services to the local elderly poor may be a more pressing issue than finding ways to attract elderly people with income to spend. Most elderly are in good health, both physically and financially. As they age, however, many become more frail, and some may outlive their assets. They, too, may eventually need help.

Nevertheless, attracting elderly migrants has contributed to rural economic growth in the recent past. The per capita income gap between metro and nonmetro counties declined only in nonmetro retirement counties that experienced substantial immigration of people at least 60 years old during the 1970s. The potential for attracting the elderly as a development strategy, however, is limited by the number of elderly of adequate means who are willing to move to rural retirement areas.

The elderly's property and transfer income can have beneficial effects on local economies. For example, income from these sources may make local economies more stable and less susceptible to variations in employment by local industries. Property and transfer income also has multiplier effects in nonmetro counties. By spending their income, the elderly create local jobs.

Not all the effects may be beneficial, however, The jobs created by the elderly's spending may be relatively low-paying. Much spending by elderly households is for items purchased from retail stores and service firms, which often do not pay their workers particularly well.

Regardless of the wages paid by the jobs created, some counties with a small population and business base may not be able to benefit much from potential multiplier effects. If sufficient local businesses do not exist, elderly cannot shop locally very much.

INTRODUCTION AND BACKGROUND

Some rural development specialists have suggested that property income (dividends, interest, and rent) and government transfer payments[1] can be developed as an economic base for local economies (Shaffer, 1981; Bain, 1982a and 1982b; Hirschl and Summers, 1982; Summers and Hirschl, 1985a and 1985b; Pulver, 1986; Schneider, 1987; Smith et al., 1987, Schneider and Green, 1989). They often note that retirees, or the elderly, receive a disproportionate amount of these unearned[2] sources of income. Thus, efforts of local areas to attract retirees or to provide places for local elderly to shop can provide a relatively stable source of income for local businesses. This development strategy, and the reasoning behind it, was aptly summarized by Glen C. Pulver:

> Less well recognized is the large share of personal income controlled primarily by people of retirement age. In 1983, 14.2 percent of personal income came from transfer payments, most of which are social security, medicare, and medicaid payments. Another 17.7 percent came from dividends, interest, and rent. This property income also goes in substantial measure to the elderly population... Recent research has shown that the elderly population are not only an important source of income and thus local retail sales and service revenue and bank deposits but they also produce high employment multipliers...(Pulver, 1986, p. 500).

Most rural development specialists investigating this topic note the growing importance of unearned income (especially transfers) to rural or nonmetro areas,[3] often citing data from the Commerce Department's Bureau of Economic Analysis (BEA) shown in figure 1. They then state that a large share of this income goes to retirees or the elderly, and often suggest that local areas develop ways to capture this income. The research may or may not be accompanied by economic base multipliers.

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[1]Transfer payments are receipts of income for which people currently do no work (U.S. Department of Commerce, 1988a, p. xxix). Transfer payments are largely from government programs, such as Social Security.

[2]The word "unearned" is not derogatory. It identifies income from sources other than employment. For a detailed discussion of the importance of unearned income in rural areas, see Bentley (1988).

[3]"Rural" and "nonmetro" are used interchangeably in this report. Generally speaking, a metropolitan (metro) area contains an urban population concentration of 50,000 or more (Beale, 1984). Other territory is nonmetropolitan (nonmetro).

Elderly recipients of transfer and investment income are less constrained by the location of a job (Manson and Groop, 1988, p. 445). Although these sources of income make it possible for older people to migrate to retirement areas, the large majority do not do so. In general, older people stay where they spent most of their adult lives (Taeuber, 1983, 19-20). The elderly are actually less likely to migrate than other people. For example, only 0.9 percent of the population at least 65 years old moved across State lines between 1986 and 1987, compared with 3.1 percent of the nonelderly (U.S. Census Bureau, 1989, p. 4).

Nevertheless, the income of elderly migrants apparently has contributed to rural growth in the recent past. For example, a recent study examined the per capita income gap between metro areas as a whole and various types of nonmetro counties (Henry et al., 1986 and 1987). The gap declined only in nonmetro retirement counties that experienced substantial immigration of people at least 60 years old. Another study (Glasgow, 1988a) found that both population and employment growth during the 1980s were higher in retirement counties than in other types of nonmetro counties.[4]

Not all rural counties, however, can become retirement counties and attract large numbers of the migrating elderly. The availability of amenities, such as mountains, lakes, a pleasant climate, or cultural activities, may make some areas more attractive to retirees. On the other hand, all counties have a native elderly population in place receiving retirement income. In nonmetro counties that have experienced substantial out-migration of younger people, the native elderly form a large portion of the population and make an important contribution to the local economy. Reeder and Glasgow (1989) identified 376 nonmetro counties that did not experience heavy immigration of older people, but still had a population at least one-sixth elderly. Retaining the elderly and their income may be critical to local economies in these counties.

To realistically assess the rural development potential of property and transfer income, some gaps in our information about these sources of income and the income of the elderly should be filled. In particular, four questions should be answered:

- What are the sources of income among the U.S. elderly?

  Changes in legislation that affect a specific source of income could have large impacts on elderly and, hence, nonmetro areas trying to attract the elderly.

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[4]Individual retirement counties, however, may have an economic base that includes more than retirees. Not all of the growth in these counties can be attributed to immigration of retirees.

allocate BEA income between the elderly and nonelderly. A discussion of the two data sources follows.

BEA Local Area Personal Income Series

The BEA data are frequently used to follow trends in personal income in local areas. The BEA provides annual estimates of personal income from transfers, property, and earnings for each county and county equivalent in the United States (U.S. Department of Commerce, 1988a). The origin of transfers by program and earnings by industry is also given in detail each year. The BEA aggregates its county data to provide income estimates for the whole Nation, metro areas, and nonmetro areas. The data are derived from administrative records kept by various State and Federal agencies and from a variety of censuses and surveys (U.S. Department of Commerce, 1988a).

However, the BEA data have a serious shortcoming--they only show the income received by all people in a given area. They do not provide information about who receives the income. For example, the BEA data provide no information about the race or sex of income recipients. And, most importantly for this report, they do not provide information about the age of recipients.

Survey of Income and Program Participation[6]

Fortunately, the SIPP provides information about the characteristics of people receiving various types of income. The SIPP was originally designed to provide detailed information about property and transfer income, among other topics. It is particularly well suited for research on the elderly, who are heavily dependent on these income sources.[7]

The SIPP is a complex longitudinal survey that collects monthly data continuously from the same persons over a period lasting two years and eight months.[8] A new sample, or panel, is introduced each year. At any given time, two or three panels may be in the field simultaneously. The households in each panel are assigned to four rotation groups. Within each interview period, or wave, all rotation groups are administered the same questionnaire. Because only one rotation group is interviewed each month, it takes four months to complete a wave. During each interview, data for the previous four months are collected.

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[6]The description of the SIPP that follows comes largely from Hoppe (1988).

[7]For more information about using SIPP for research on the elderly, see McMillen et al. (1985).

[8]Because SIPP is a sample survey, it is subject to underreporting. For more information, see Appendix I.

men and 8 percent of the women who were 65 years old or more were still in the labor force in 1989 (U.S. Department of Labor, 1990a, p. 162). Exclusion of these workers from my analysis is undesirable, because I wish to examine the sources of income of all the elderly, however defined, including the working elderly.

This report will conform to tradition and simply define the elderly as the population at least 65 years old, as of the last month on the longitudinal research file extract. This definition will make the results comparable with the majority of other statistics and studies that define the elderly the same way. When income levels and poverty status of the elderly population are examined, the elderly will be divided into the "young old" (65 through 74 years of age) and the "old old" (at least 75 years old).[9]

Unit of Observation

The unit of observation throughout most of this report is the household.[10] The aggregate income of the elderly is derived by adding up all the income assigned to people living in a household where the householder is at least 65 years old, as of the last month on the longitudinal research file extract. This approach includes the income of nonelderly spouses of elderly householders. It also includes the income of younger relatives living in the same housing unit. Using the household as the unit of observation recognizes that income is available to the elderly from younger household members, particularly younger spouses.

RESULTS

The four questions posed above can now be addressed. The elderly's sources of income and their income levels will be examined first. Then, the elderly's share of unearned income can be estimated.

Any differences in SIPP-based estimates discussed in the text are significant at the 90 percent level or more, unless stated otherwise. Information about a particular source of income is not presented for metro and nonmetro areas unless each had at least 200,000 elderly households receiving that type of income. The Census Bureau feels that information from the longitudinal research file is of questionable reliability when based on fewer than 200,000 households (Coder et al., 1987, Appendix L).

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[9]Age 85 is normally used as the dividing point between the young, old, and old old. The sample size for the longitudinal research file, however, did not allow using the higher cut-off.

[10]When income levels of the elderly are examined, the person is the unit of observation. This is discussed later.

Table 1. Elderly households' income, by source, 1983-84

Item	All U.S. elderly households: Per hhld.	All U.S. elderly households: Distribution	Metro elderly households: Per hhld.	Metro elderly households: Distribution	Nonmetro elderly households: Per hhld.	Nonmetro elderly households: Distribution
	Dol.	Pct.	Dol.	Pct.	Dol.	Pct.
Total income 1/	17,524	100.0	18,676	100.0	14,835 *	100.0
Earnings	3,495	19.9	3,913	21.0	2,518 *	17.0
Unearned income	14,005	79.9	14,764	79.1	12,233 *	82.5
Total Transfers	9,633	55.0	10,058	53.9	8,641 *	58.2
Government transfer payments 2/	8,391	47.9	8,617	46.1	7,865 *	53.0 **
Retirement and related programs 3/	7,932	45.3	8,202	43.9	7,300 *	49.2
Social Security	6,281	35.8	6,457	34.6	5,870 *	39.6 **
Federal civilian retirement	632	3.6	676	3.6	528	3.6
State and local government retirement	549	3.1	599	3.2	430	2.9
Income maintenance 4/	256	1.5	235	1.3	304	2.0 **
Supplemental Security Income	190	1.1	173	0.9	230	1.6 **
Food Stamps and WIC	37	0.2	31	0.2	51	0.3
Veterans' benefits	181	1.0	157	0.8	237	1.6
Private transfer payments 5/	1,242	7.1	1,441	7.7	776 *	5.2 *
Private retirement 6/	1,208	6.9	1,408	7.5	742 *	5.0 *
Property income:	4,372	24.9	4,706	25.2	3,592	24.2
Interest	2,881	16.4	3,080	16.5	2,416	16.3
Dividends	804	4.6	941	5.0	484 **	3.3
Net income from rentals	295	1.7	265	1.4	366	2.5
Other property income 7/	392	2.2	420	2.2	326	2.2

*Significantly different from the metro estimate at the 95-percent level.
**Significantly different from the metro estimate at the 90-percent level.

Note: Items may not add to totals due to rounding and because some income sources were not given a separate line in the table. Also note that the U.S. total columns include a few cases that could not be assigned a metro or nonmetro residence.

1/ Includes miscellaneous items not shown separately.
2/ Includes unemployment insurance not shown separately.
3/ Includes Railroad Retirement, military retirement, workers' compensation, State temporary disability payments, and Black Lung payments not shown separately.
4/ Includes general assistance, refugee assistance, foster home care payments, Aid to Families with Dependent Children, and other income maintenance not shown separately.
5/ Includes money from relatives or friends, charity, alimony, and child support not shown separately.
6/ Company or union pensions; other payments for retirement, disability, or survivors; and paid up life insurance or annuities.
7/ Income from estates or trusts, royalties, and other investments.

Source: SIPP (U.S. Census Bureau, 1987).

small portion of the elderly's income. First, not all workers in the private sector are covered by private pensions. Second, private pension plans are often "integrated" with Social Security (Lovejoy, 1988; Bell and Hill, 1984; McGill, 1979). In other words, Social Security benefits are considered when calculating private pension benefits, which reduces costs that employers pay. Private pensions alone, therefore, are generally not intended to provide all, or even most, of retirees' income. Third, few private pension plans automatically adjust retiree's benefits for inflation (Lovejoy, 1988), unlike Social Security. Over time, inflation can erode the value of private pension benefits, making them a smaller share of the elderly's income. Finally, some pension plans allow new retirees to take all or part of their pension benefits in a lump sum (McGill, 1979, pp. 127-8). This would reduce the income paid by their pensions during retirement.

In summary, the elderly receive a large portion of their income from government transfer programs, especially in nonmetro areas. Social Security is particularly important to the elderly in nonmetro areas, paying about two-fifths of their income. The nonmetro elderly received an average of $5,870 per household from Social Security during the 12-month period, $2,278 more than the amount from property.

Income Levels Among the Elderly

The lower income per household among the elderly in nonmetro areas is reflected in their higher poverty rate. Approximately 17.9 percent of nonmetro elderly people were poor (table 3).[12] The poverty rate for metro areas was about half as high, 8.5 percent.

In nonmetro areas, the old old were more likely to be poor than the young old. The old old were also more likely to be poor in nonmetro areas than in metro areas. About one-quarter of the nonmetro old old were poor, compared with only about one-tenth of the nonmetro young old or the metro old old. The nonmetro old old may have outlived their assets, or they simply may have never earned as much income as the younger nonmetro elderly or the metro old old.

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[12]Note that the person in the unit of observation in this section. Poverty status is provided only for persons on the longitudinal research file. Each person has a variable recording the total income of his or her family for each month and a variable recording the poverty level for his or her family each month. (Family membership can change from month to month.) The poverty level for the entire 12-month period is calculated by adding the 12 monthly poverty levels. If the sum of the 12 income amounts is less than the 12-month poverty level, the person is poor (Hoppe, 1988, p. 10). See "poor" in the glossary for more information.

Poverty statistics may seem irrelevant for rural development schemes involving the income of the elderly, because no retirement county deliberately tries to attract the elderly poor. However, these statistics do point out that many of the nonmetro elderly currently in place are poor. For some rural areas, finding ways to provide the local elderly poor with medical facilities, transportation, meals-on-wheels, and other services may be a more pressing issue than devising ways to attract additional elderly. Development plans based on the spending of the local elderly may not yield many results in these areas.

Obviously, areas trying to attract the elderly will direct their appeals to people with incomes well above the poverty level. Selective areas may try to target the "comfortably retired," defined here as people with income at least twice the poverty level (Longino, 1988, p. 24). Areas targeting the comfortably retired elderly would have a large market, approximately 15.6 million (11.7 million in metro areas and 3.9 million in nonmetro areas).

Although many of the comfortably retired do have high incomes, people with income at least double the poverty level are not necessarily well-to-do. Two times the poverty level was only $9,550 for one person living alone and $12,038 for a couple in 1983 (table 4). In comparison, the median income was $10,352 for all unrelated individuals and $25,037 for all families on the longitudinal research file.

In addition, as these people age, their income levels may come to resemble those of the old old. The future old old, however, may never be as poor as those currently in that age group, because real wage levels have gradually risen over time. As a result, Social Security and pension benefits, which are determined (in part) by wage levels, should be higher for more recent retirees.

More selective areas may want to target their appeals to elderly with higher incomes to reduce future poverty problems among the old old. Appealing to higher-income elderly, however, reduces the potential market. For example, areas restricting their appeals to people with income at least four times the poverty level would have a market of only 5.4 million people.

In addition, not all of the old-old elderly's problems are financial:

> Longer life expectancy means that more elderly Americans will be disabled and that individuals may spend more of their lives suffering from chronic medical problems. Medical advances are extending life faster than they are slowing the onset of chronic conditions. Dementia, for example, typically strikes people in their 70s and 80s. As a greater proportion

of people live to see that age, the incidence of dementia will increase (Greenwald, 1989, p. 36).

Even retirement areas specializing in the well-to-do will have to face the health problems of the very old.

On the other hand, local areas do not bear all the costs of deteriorating health. Government and private health insurance largely pay for the elderly's medical expenses,[13] while local taxes generated by retirement income help offset local public costs (Longino and Crown, 1989, p. 31). And, providing health care to the elderly can generate business opportunities and jobs.

Note that the effective market for retirement counties is much smaller at all income levels than table 3 suggests, because relatively few elderly move. Between 1975 and 1980, slightly more than 4 percent of the elderly moved to different States (Taeuber, 1983). Migration seems to select elderly of higher socioeconomic status, however. Elderly who migrate across state or county lines have higher family income and more education than elderly who do not move at all (Biggar, 1980, p. 83).

In addition, some migration of the elderly is away from traditional retirement areas. For example, there were substantial flows of the elderly from Florida to States that send migrants to Florida. Many of these migrants probably moved to Florida early in their retirement, but later returned to their States of origin to be near family members when a spouse died or when health or financial problems began (Biggar, 1984, pp. 5-6). Nevertheless, the amount of income migrating retirees bring to an area can be substantial. Between 1985 and 1990, migrating retirees age 60 and above will bring an estimated $1.7 billion of income to Florida from New York alone (Longino and Crown, 1989).

The potential economic gain has lead States

> ...to compete for out-of-state retirees. This growing competition could change the size and direction of elderly migration before the turn of the century. The Sunbelt states are pursuing retirees with the same gusto that they once pursued industry...(Longino and Crown, 1989, p. 31).

In the ensuing competition, not all rural areas will be able to attract affluent retirees, just as some rural communities failed to attract industrial plants in the past. State planners need to

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[13]In 1984, Medicare, Medicaid, and private insurance covered about 69 percent of the elderly's health care expenditures (U.S. House of Representatives, 1989, p. 230). The elderly paid for about 25 percent of their health care expenses from their own funds. The elderly's out-of-pocket health care expenditures amounted to $1,059 per capita, including $441 for nursing homes.

Table 5. Elderly households' share of income, by source, 1983-84

Item	U.S. Total: Total amount	U.S. Total: Elderly hhld. amount	U.S. Total: Elderly hhld. share	Metro: Total amount	Metro: Elderly hhld. amount	Metro: Elderly hhld. share	Nonmetro: Total amount	Nonmetro: Elderly hhld. amount	Nonmetro: Elderly hhld. share
	--Thous. households--		Pct.	--Thous. households--		Pct.	--Thous. households--		Pct.
Households	86,856	17,939	20.7	64,934	12,560	19.3	21,916	5,379	24.5 *
	--Million dollars--		Pct.	--Million dollars--		Pct.	--Million dollars--		Pct.
Total income 1/	2,335,149	314,376	13.5	1,818,064	234,575	12.9	516,964	79,801	15.4 *
Earnings	1,807,132	62,693	3.5	1,423,318	49,147	3.5	383,716	13,546	3.5
Unearned income	527,577	251,247	47.6	396,601	185,444	46.8	130,967	65,803	50.2
Total Transfers	329,958	172,815	52.4	245,876	126,334	51.4	84,073	46,481	55.3 *
Govt. transfer payments 2/	271,364	150,537	55.5	199,335	108,229	54.3	72,020	42,308	58.7 **
Retirement & rel. prog. 3/	213,262	142,291	66.7	156,103	103,026	66.0	57,152	39,265	68.7
Social Security	148,949	112,677	75.6	108,038	81,101	75.1	40,911	31,577	77.2
Federal civilian ret.	19,239	11,332	58.9	14,197	8,495	59.8	5,042	2,837	56.3
State & local govt. ret.	16,706	9,841	58.9	12,872	7,529	58.5	3,833	2,312	60.3
Income maintenance 4/	33,414	4,585	13.7	25,759	2,950	11.5	7,653	1,635	21.4 *
Supplemental Sec. Inc.	8,727	3,414	39.1	6,412	2,175	33.9	2,315	1,239	53.5 *
Food Stamps and WIC	10,215	671	6.6	7,087	394	5.6	3,126	277	8.9
Veterans' benefits	10,342	3,250	31.4	7,002	1,976	28.2	3,339	1,274	38.1
Private transfer payments 5/	58,594	22,278	38.0	46,541	18,105	38.9	12,053	4,173	34.6
Private retirement 6/	39,388	21,675	55.0	30,968	17,685	57.1	8,419	3,990	47.4
Property income:	197,618	78,432	39.7	150,725	59,110	39.2	46,893	19,322	41.2
Interest	113,394	51,687	45.6	87,586	38,689	44.2	25,808	12,998	50.4
Dividends	37,949	14,419	38.0	29,388	11,816	40.2	8,561	2,603	30.4
Net income from rentals	24,521	5,296	21.6	19,749	3,328	16.9	4,772	1,968	41.2 *
Other property income 7/	21,755	7,030	32.3	14,002	5,277	37.7	7,753	1,753	22.6

* Significantly different from the metro percentage at the 95-percent level.
** Significantly different from the metro percentage at the 90-percent level.

Note: Items may not add to totals due to rounding and because some income sources were not given a separate line in the table. Also note that the U.S. total columns include a few cases that could not be assigned a metro or nonmetro residence.

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4/ Includes general assistance, refugee assistance, foster home care payments, Aid to Families with Dependent Children, and other income maintenance not shown separately.

5/ Includes money from relatives or friends, charity, alimony, and child support not shown separately.

6/ Company or union pensions; other payments for retirement, disability, or survivors; and paid up life insurance or annuities.

7/ Income from estates or trusts, royalties, and other investments.

Source: SIPP (U.S. Census Bureau, 1987).

sources.[16] An estimate developed specifically for the BEA data is necessary.

To get an estimate of BEA unearned income that goes to the elderly, the elderly's percentage share of each BEA transfer and property income category was calculated from SIPP data. The appropriate percentage was then applied to the corresponding dollar amounts from the BEA to estimate the elderly's dollar share. In a few cases, data other than income receipts were used as an allocator, due to lack of income data. For a more detailed explanation of the methods used to allocate BEA transfer and property income between the elderly and nonelderly, turn to Appendix II.

Three BEA items--payments to nonprofit institutions, imputed interest, and imputed rent--were not allocated between the elderly and nonelderly because they are not "spendable." They provide neither cash for people to spend nor in-kind goods or services, such as medical care, that people would otherwise have to buy or do without. Government and business payments to nonprofit institutions were not allocated because they go to organizations, not directly to people. The two other items, imputed interest and imputed rent, are accounting conventions necessary to estimate personal income, but are not accessible to consumers for spending in local stores. For example, most imputed interest consists of income withheld by life insurance companies and private pension funds on behalf of people. This income remains with the insurance company or pension fund and is not immediately available for local spending. Again, see Appendix II for more details.

The results of the allocation procedure are summarized in table 6 and compared to the results from SIPP. The elderly receive about 53 percent of transfers, 32 percent of property income, and about 42 percent of all unearned income recorded by BEA. Note that the elderly's shares of property income and total unearned income are substantially less in column 1 than in column 2, largely because of the exclusion of imputed interest, discussed above, which makes up 29 percent of BEA property income.

The rural development specialists cited in the introduction were correct in pointing out that the elderly can have an important impact on local economies. Transfer payments and property income, as recorded by BEA, are a large source of income amounting to nearly one trillion dollars in the 1983-84 period

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[16]For example, BEA data include Medicare and Medicaid, imputed rent and interest, and government and business payments to non-profit institutions. All these items are excluded from income in the SIPP. On the other hand, BEA excludes income from private pensions (Hoppe and Saupe, 1982, pp. 31-32), which the SIPP includes.

and property income recorded by BEA (table 6). Efforts of rural areas to attract the migrating elderly or to provide places for the local elderly to spend their money may not necessarily capture as much income, particularly property income, as BEA data suggest.

Despite their large property and transfer income, the elderly should not be viewed solely as potential customers for rural businesses. Many elderly are poor, particularly in nonmetro areas (table 3). For some nonmetro areas, providing needed services-- such as medical facilities and transportation--to local elderly poor may be a more pressing issue than finding ways to attract elderly people with income to spend. Although most elderly are in good health, both physically and financially, they age and become the old old. Many become frail, and some may outlive their assets. They, too, may need help.

Local areas, however, do not bear all the costs of deteriorating health. The government and private insurance largely pay for the elderly's medical expenses. Careful planning in retirement counties can also help compensate for deteriorating physical or financial health:

> Policy makers and [social work] practitioners can either begin now to plan for long-range needs of retirees as they grow older; or discourage retirees from spending the rest of their lives in a remote rural community, encouraging instead location in the area during early active retirement years only. Should additional support services not be forthcoming, it might be wise to market the community as ideal for early retirement years, suggesting a contingency plan for a less vigorous environment should that be necessary in later years. This would mean that retirees might be encouraged to plan for the eventual resale of their homes, for example, with low equity and assumable mortgages rather than purchasing their homes outright (Tripple, et al., 1989, pp. 30-1).

Readers may wonder how dependence on property and transfer income will affect local economies. They may also question the future solvency of the Social Security program, given recent coverage of the topic in the press.[19] Although neither of these questions can be answered directly from SIPP or BEA data, they should be addressed in any discussion of the role of the elderly's unearned income in rural development plans.

Local Economic Impact

The elderly's unearned income can have beneficial effects on local economies. For example, property and transfer income may

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[19]See, for example, Allen (1988) or Srodes (1988).

make local economies more stable and less susceptible to variations in employment by local industries:

> ...Unlike most labor-related industry sources of earnings, the level of transfer payment and investment incomes received by the residents of a region is not directly dependent on the current level of economic activity within the region. Consequently, as the transfer payment and investment incomes of elderly retirees become increasingly important sources of income and purchasing power within an area, they can alter its short-run cyclical pattern of income growth (Smith, 1986, p. 3).

Property and transfer income also has strong income multiplier effects in nonmetro counties, regardless of the counties' economic specialization (Sanford, 1988). Hirschl and Summers (1982) also found that Social Security has large employment multipliers. They suggested two possible reasons for the high employment multipliers. First, retired people spend a large share of their income locally. Second, a large retired population may be associated with the expansion of the local health sector.

The jobs created, however, may be relatively low-paying. Much spending by elderly households is for items purchased from retail stores and service firms,[20] which often do not pay their workers particularly well (Schneider, 1987, p. 7). Note, however, that households in general spend heavily on the same types of goods and services. The low-wage criticism should not be restricted to rural development strategies based on the income of the elderly. Any other strategy that depends on spending by households, such as tourism development, is subject to the same criticism.

Regardless of the wages paid by the jobs created, some counties with a small population base may not be able to benefit from potential multiplier effects. For example, Sanford (1988) found that his regression model to estimate income multipliers worked best in "large" counties having at least one town with a population of 2,500 or more residents:[21]

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[20]Based on personal consumption expenditures data from Lazer and haw (1987, p. 40). About 48 percent of the spending by households with a young-old householder went for food, clothing, house furnishings and equipment, autos, gasoline, auto repair, personal care, entertainment, alcohol, and tobacco. Only 37 percent of old-old household purchases went for these items; old-old household devoted more of their expenditures to shelter, utilities, health care, and contributions.

[21]The service sector in the quote includes industries producing for the local, or residentiary market. The remaining industries form the basic sector, attracting income from outside the areas

Social Security and Medicare.[23] Without strong economic growth, these increases would impose substantial burdens on future workers and their employers, who may balk at paying the payroll taxes necessary to maintain the current benefit levels.

Beyond the Elderly

Nevertheless, the Social Security income of the elderly appears secure until at least 2030. Development strategies based on the income of the elderly will be feasible for years. Rural areas, therefore, have the opportunity to follow a short-run and a long-run development strategy at the same time. James Hite (1987, pp. 7-9) suggests that some rural areas in the South could develop a service-oriented economy centered on retirees while simultaneously developing human capital through education. The human capital approach will not provide results for 15 to 20 years. In the meantime, the retirement economy could produce jobs for relatively low-skilled people.

Combining the two strategies may not be easy, according to Hite:

> ...retirees often are not as interested in support of public education as persons with young families, and they often resist higher taxes for education. Retirees vote in greater proportion to their numbers than other groups in the population; hence, their political views are apt to carry weight out of proportion to their numbers in the population and they may exercise an effective veto on implementation of the human capital strategy. The more successful a state or community becomes in attracting retirees, the greater the risk that the political micro-climate will turn unfavorable to support for large investments in human capital. If that were to happen, the outcome would be a dead-end on that state or community's development sometime in the future (Hite, 1987, p. 9).

Although Hite may overstate the resistance of the elderly to educational spending, he does point out a potential problem.

Also note that out-migration from nonmetro areas is highest among better-educated people (McGranahan, 1988, p. 12). Unless more jobs requiring better educated workers are created in nonmetro areas, developing human capital could lead to higher out-migration.

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[23]Employees and employers each pay half of the Social Security and Medicare payroll taxes. The combined tax currently is 15.3 percent on wages up to $51,300 (U.S. House of Representatives, 1989, p. 67); Dentzer, 1990).

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APPENDIX I:
UNDERREPORTING IN THE SIPP

The Census Bureau uses a different approach in producing its SIPP data than the BEA uses in its local area income series. The BEA bases its estimates of local income largely on administrative records kept by various agencies, as well as surveys and censuses conducted by organizations other than BEA (U.S. Department of Commerce, 1988a). The Census Bureau, in contrast, bases its SIPP estimates on a sample survey.

Survey respondents may not report all their income to the SIPP interviewer, due to forgetfulness or a desire to keep receipt of some sources of income confidential. As a result of this underreporting, SIPP estimates of income receipts are smaller than BEA estimates. Appendix table I-1 presents size comparisons for selected income sources. When comparing BEA and SIPP data, however, one should remember that both sets of numbers are only estimates based on different procedures. Remember also that the BEA data are not error-free either.

Underreporting is a problem for any sample survey; it is not restricted to the SIPP. Compared with the venerable March Supplement to the Current Population Survey, the SIPP has made some progress in reducing underreporting for some income sources, although underreporting continues for other sources (Coder et al., 1987, p. 29).

Despite underreporting, the SIPP is still valuable, because it fills a gap in our knowledge--it provides information about the people who receive various sources of income. The BEA data can only show the income from a given source that flows into an area. They can not provide information about who receives the income. Used together, the two data sources complement each other and provide a better understanding of income receipts in rural areas. For a discussion of how different measuring procedures can result in different income estimates, see Ryscavage (1986).

APPENDIX II:
ALLOCATING BEA UNEARNED INCOME

This appendix explains how SIPP data were used to estimate the elderly's share of BEA transfer and property income. In general, the elderly's percentage shares of a detailed list of transfer and property income receipts were calculated from the SIPP 1983-84 Longitudinal Research File. These percentage shares were applied to the corresponding items from the BEA estimates of benefits paid (table II-1).[1] Many of the allocation factors in table II-1 also appear in table 5. Medical payments, mostly Medicare and Medicaid, were allocated by recipient data rather than by benefit data, because SIPP did not provide benefit data for these programs. A few items were allocated by the elderly's share of total house-holds, for want of a better allocator.[2]

Estimates of the elderly's share of BEA income were prepared only for the U.S. as a whole; metro and nonmetro estimates are not presented. To do so would attribute more precision to the allocation procedure than is justified. Some of the sources in table II-1 provide income to relatively few households, even at the national level. Providing metro-nonmetro estimates would frequently require calculating percentages based on fewer than 200,000 elderly recipient households. Even with national-level estimates, the allocation percentages for other income maintenance and educational assistance to veterans are based on fewer than 200,000 recipient elderly households.

Three items--payments to nonprofit institutions, imputed interest, and imputed rent--were not allocated because they are not "spendable." They do not go directly to people to spend locally nor do they provide people with an in-kind good or service that they would otherwise have to buy or do without. Government and business payments to nonprofit institutions go to organizations, not directly to people. The two other items, imputed interest and imputed rent, are accounting conventions that should be examined in greater detail.

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[1]The SIPP income data are from late 1983 and early 1984, with 46 percent of the observations coming from 1983 and 54 percent coming from 1984. Because the BEA data are for calendar years, the amounts in the first column were calculated by adding 46 percent of the item from 1983 plus 54 percent of the corresponding item from 1984. Coder et al. (1987, p. 5) developed this adjustment procedure when comparing SIPP data from the longitudinal file with the corresponding data from the 1983 and 1984 Current Population Survey.

[2]These items are: veterans' life insurance benefits, other assistance to veterans, other payments to individuals, and business payments to individuals.

between this residual and the availability of money for local spending, particularly when it is calculated from national-level data.

Imputed rent is easier to define and comprehend than imputed interest. It is the net rental value of owner-occupied housing. Note in table II-1 that imputed rent was negative. In other words, housing expenses cost home owners more than they would have paid renting. Not all of these expenses are paid with money; depreciation is a large expense item not reflected by cash flows. One could argue that a positive imputed rent is in-kind income similar to Medicare benefits. Negative imputed rent, however, is more like an expense. Therefore, imputed rent was not allocated in table II-1.

Including imputed interest and imputed rent is reasonable when devising an accounting system to estimate the total personal income that accrues to residents of an area. This imputed income, however, is not in a form that is readily accessible to individuals to spend. It should be excluded from estimates of local income available for spending when formulating rural development schemes.

Appendix table II-1. Elderly households' spendable BEA unearned income, 1983-84 (continued)

Item	Total amount	Elderly's share of spendable items 1/	Elderly's spendable amount	Elderly's share of total unearned income, transfers, & property income
	Million dollars	Percent	Million dollars	Percent
Total property income	504,032	N.A.	160,178	31.8
Dividends	72,403	38.0	27,513	
Interest	420,956	N.A.	126,076	
Monetary	276,482	45.6	126,076	
Imputed	144,475	Not spendable	0	
Rents and royalties	10,673	N.A.	6,589	
Monetary	26,356	25.0	6,589	
Imputed	(15,684)	Not spendable	0	

Note: N.A.=Not applicable. Item is calculated as a total of subgroups.

1/ Calculated from SIPP income data, unless noted otherwise.
2/ Includes temporary disability payments, black lung payments, and workers' compensation.
3/ Includes Medicare, Medicaid, and CHAMPUS.
4/ Allocated by elderly persons' share of total months of medicare and medicaid coverage.
5/ Includes general assistance, emergency assistance, refugee assistance, foster home care payments, earned income tax credits and energy assistance.
6/ Allocated by elderly households' share of general assistance; Indian, Cuban, or Refugee Assistance; foster child care payments; and other welfare income receipts from SIPP.
7/ Allocated by number of elderly households as percentage of total households.
8/ Includes Federal fellowship payments (NSF, fellowships and traineeships, subsistence payments to state maritime academy cadets, and other federal fellowships), interest subsidy on higher education loans, basic educational opportunity grants, and job corps payments.
9/ The elderly are assumed not to participate heavily in the programs listed in footnote 8.
10/ Includes BIA payments, educational exchange payments, compensation of survivors of public safety officers, compensation of victims of crime, Alaska permanent fund dividend payments, and other special payments to individuals.
11/ Includes consumer bad debts, personal injury payments to nonemployees, and other business transfer payments.

Source: SIPP (U.S. Bureau of the Census, 1987) and BEA (U.S. Department of Commerce, 1989).

APPENDIX III: SOCIAL SECURITY AND THE FUTURE OF THE ECONOMY

Relying on the income of the elderly would appear to be a safe rural development strategy for the future, if the projected growth of the elderly population were the only important factor. The Social Security Administration (SSA) projects the population by age under three alternative sets of assumptions (Wade, 1988).[1] According to the SSA's intermediate projection, the one based on assumptions thought most likely to occur, the population at least 65 years old will be 37 percent larger in 2010 than in 1986.

Whether the elderly's income offers a sound economic base for nonmetro areas is not as clear, however. Because one-third of the elderly's income comes from Social Security alone (table 1), the future of that program is critical. The Social Security retirement and disability trust fund is currently building up a large surplus to help pay for the future benefits of "baby boomers" (Hambor, 1987). Beginning in 2030, this surplus will be drawn down to pay retirees and, barring future payroll tax increases, will eventually turn into a deficit by 2051.

Over the next 75 years, Aaron et al. (1989, p. 123) estimate that payroll taxes need to be raised an additional 6.9 percentage points to pay for both Social Security and Medicare. (About 2.4 percentage points is for Social Security and 4.5 percent is for Medicare.) Without strong economic growth, these increases would impose substantial burdens on future workers, who may balk at paying the payroll taxes necessary to maintain the current benefit levels.

Part of the problem arises from the declining number of people of working age relative to the elderly. Under the SSA's intermediate projection, the ratio of people 20 to 64 years old to people at least 65 years old declines from about 5:1 in 1986 to 2.5:1 in 2033, where it stabilizes for decades (Wade, 1988, pp. 25-8).

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[1]The projections developed by the SSA differ from those published by the Census Bureau. Census Bureau projections include only the U.S. and Armed Forces serving abroad. The SSA includes additional populations covered by the Social Security program: Puerto Rico, Guam, American Samoa, the Virgin Islands, and other citizens living outside the U.S. The SSA also uses assumptions different from those the Bureau uses. SSA projections are used here because they, not the Census Bureau projections, are used to assess the future of Social Security.

Readers may question the conclusions presented here because they are ultimately based on long-term projections. Although economic projections are frequently criticized as poor predictors, they can still be useful in planning for the future:

> ...Like astrologers and futurologists, economists have limited success predicting events one year in the future, much less seven decades later. The value of the economic projections lies not in their capacity to accurately foretell the future, but in their representation of the logical implications of carefully stated economic and demographic assumptions (Aaron et al., 1989, p. 36).

APPENDIX IV: GLOSSARY

Dividends. Payments to people holding stock of corporations that were organized to make a profit.

Earned income (or earnings). Income from work. The work can be for others (a wage or salary job), or it can be for oneself (self-employment). (See unearned income.)

Elderly. Anyone 65 years old and older.

Family. A group of two or more people related by birth, marriage, or adoption who live together.

Government transfer payments. Transfers provided by government programs. Among the categories of government transfer payments examined in this report are: retirement and related programs, income maintenance, and veterans' benefits.

Household. All the people living in a housing unit. A house, an apartment, or a single room is considered a housing unit if it is occupied as a separate living quarters. The occupants do not live or eat with any other people in the building, and there is direct access from outside or indirect access through a common hall.

Income maintenance. Programs targeted at low-income people. These programs do not require a work history for eligibility. Supplemental Security Income (SSI) provides income to needy disabled, blind, and elderly people. The Food Stamp Program provides coupons to use when purchasing food. Other income maintenance programs include: Aid to Families with Dependent Children (AFDC); Women, Infants, and Children (WIC); general assistance, refugee assistance, and foster home care payments.

Interest. Includes interest people receive from saving accounts, money market deposit accounts, certificates of deposit, and interest-bearing checking accounts held at banks, savings and loan associations, and credit unions. It also includes interest people receive from mortgages, money market mutual funds, and municipal and corporate bonds. Depending on the data source, interest may or may not include imputed interest. Imputed interest consists of the value of services provided without charge to depositors by financial institutions and income credited to people's accounts by life insurance companies and uninsured private pension funds.

Medical Payments. Benefits from three medical programs: Medicare, Medicaid, and Civilian Health and Medical Plan of the Uniformed Services (CHAMPUS). Medicare pays for the medical care of aged and disabled Social Security recipients. Medicaid pays for the medical care of certain groups of poor people. CHAMPUS pays for the treatment (at civilian medical facilities) of active military personnel's dependents, retired military personnel, and retired military personnel's dependents.

to what home owners would have paid to rent their housing unit, minus expenses.

Retirement and related programs. Government programs that provide income to retirees, disabled workers, and their dependents. These programs include: Social Security, railroad retirement, federal civilian retirement, military retirement, State and local government retirement, workers compensation, State temporary disability, and Black Lung. Participation in these programs requires a previous work history.

Retirement counties. Nonmetro counties that experienced, between 1970 and 1980, net immigration of people aged 60 and over equal to 15 percent or more of the people in the county of that age in 1980.

Royalties. Income people receive from patents, copyrights, and rights to natural resources.

Transfer payments (transfers). Income received by people for which no work was performed in the current period. (See government transfer payments and private transfer payments.)

Unearned income. Income from property and transfer payments. The word "unearned" is not derogatory. It simply identifies income from sources other than earnings from employment. (See earned income.) Unearned income often reflects earlier receipt of earned income. For example, elderly people now receive Social Security and interest because they used some of their wages in the past to pay Social Security payroll taxes and to save.

Veterans' benefits. Benefits received from veterans' programs, mostly from veterans' compensation and veterans' pensions. Veterans' compensation provides income for veterans with a service-connected disability and for their survivors. Recipients need not have a low income to be eligible. Veterans' pensions are for disabled war veterans whose disability is not service-connected, elderly war veterans, and survivors of war veterans. Recipients of veterans' pensions must meet low-income requirements.

Young old. Between 65 and 74 years old.