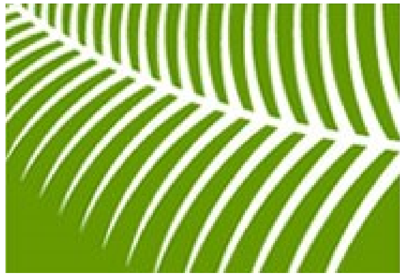


The World's Largest Open Access Agricultural & Applied Economics Digital Library

This document is discoverable and free to researchers across the globe due to the work of AgEcon Search.

Help ensure our sustainability.

Give to AgEcon Search

AgEcon Search
http://ageconsearch.umn.edu
aesearch@umn.edu

*Papers downloaded from **AgEcon Search** may be used for non-commercial purposes and personal study only. No other use, including posting to another Internet site, is permitted without permission from the copyright owner (not AgEcon Search), or as allowed under the provisions of Fair Use, U.S. Copyright Act, Title 17 U.S.C.*

No endorsement of AgEcon Search or its fundraising activities by the author(s) of the following work or their employer(s) is intended or implied.

A53

United States
Department of
Agriculture

Economic
Research
Service

Rural Development
Research Report
Number 80

The Role of the Elderly's Income in Rural Development

Robert A. Hoppe

USDA NAT'L AGRIC. LIBRARY
JAN 24

It's Easy To Order Another Copy!

Just dial 1-800-999-6779. Toll free in the United States and Canada. Other areas, please call 1-301-725-7937.

Ask for *The Role of the Elderly's Income in Rural Development* (RDRR-80).

The cost is $8.00 per copy. For non-U.S. addresses (includes Canada), add 25 percent. Charge your purchase to your VISA or MasterCard, or we can bill you. Or send a check or purchase order (made payable to ERS-NASS) to:

ERS-NASS
P.O. Box 1608
Rockville, MD 20849-1608.

We'll fill your order by first-class mail.

The Role of the Elderly's Income in Rural Development. By Robert A. Hoppe, Agriculture and Rural Economy Division, Economic Research Service. U.S. Department of Agriculture. Rural Development Research Report No. 80.

Abstract

The elderly receive substantial property income (interest, dividends, and rent) and transfer payments (mostly from Government programs, such as Social Security), which, if spent locally, can create jobs and help stabilize local economies. Some rural development specialists advocate attracting older migrants to stimulate local economies. However, the elderly's property and transfer income is not a panacea for rural economic development. While elderly migrants have contributed to economic growth in some nonmetro areas, attracting them to stimulate rural economies is limited by the number of elderly of adequate means who are willing to move. Many elderly are poor, particularly in nonmetro areas. Providing the local elderly poor with services may be a more pressing issue for some nonmetro areas than attracting more elderly. Development strategies that rely on the income of the elderly must also consider the future of the Social Security Program, since it provides about a third of the elderly's income.

Keywords: Elderly, aged, transfer payments, Social Security, property income, investment income, unearned income, economic development, rural development, poverty, rural poverty, nonmetro areas, rural areas

Acknowledgments

I thank reviewers of this report for their helpful comments. Reviewers at the Economic Research Service (ERS), Agriculture and Rural Economy Division, were Calvin Beale, Susan E. Bentley, Richard J. Reeder, and Carolyn C. Rogers. Reviewers at the U.S. Department of Commerce, Bureau of the Census, were Arnold Goldstein and Daniel Kasprzyk. Thanks also go to Rita Petroni and Rajendra Singh (Census Bureau) for their assistance with the significance testing. I thank Mary Maher for her editorial assistance and Victor B. Phillips, Jr., for his graphic assistance. Finally, I also thank Robert B. Clemons (formerly with ERS, now with the Census Bureau) for extracting data from the Census Bureau's computer files.

1301 New York Avenue, NW.
Washington, DC 20005-4788

January 1991

Contents

	Page
Summary	iii
Glossary	v
Introduction	1
Data and Definitions	2
BEA Local Area Personal Income Series	3
Survey of Income and Program Participation	3
Defining the Elderly	3
Unit of Observation	4
Significance Testing	4
The Elderly's Sources of Income	4
Income Levels Among the Elderly	6
The Elderly's Share of Income	9
SIPP Income	9
BEA Property and Transfer Income	11
Implications	12
Local Economic Impact	13
The Future of Social Security	14
Beyond the Elderly	14
A Final Note	14
References	15
Appendix 1: Underreporting	18
Appendix 2: Allocating BEA Unearned Income	19
Appendix 3: The Future of Social Security	22

Summary

The elderly receive substantial property income (interest, dividends, and rent) and transfer payments (mostly from Government programs, such as Social Security). If spent locally, this income can create jobs and help stabilize local economies. Some rural development specialists even advocate attracting older migrants from elsewhere to stimulate local economies.

However, the elderly's income is not a panacea for rural economic development. The elderly's share of property and transfer income is often exaggerated. Many elderly are poor, especially in nonmetro areas, and have little money to spend. Advantages and disadvantages of capturing the income of the elderly as a development strategy should be weighed carefully.

This report examines the sources and levels of income among the U.S. elderly, particularly in nonmetro areas. It estimates the share of transfer and property income that actually goes to the elderly, and identifies the elderly's most important sources of income. Because Social Security provides a third of the elderly's income, the future of that program is also examined.

Transfer payments and property income have become large sources of income. According to the Survey of Income and Program Participation (SIPP), these sources provided about a quarter of total income in the early 1980's. Households headed by the elderly received nearly half of the transfer and property income, although such households formed only 21 percent of all U.S. households.

The elderly's large transfer and property income can have an important impact on nonmetro areas that attract older migrants. It also can be important in nonmetro areas where the elderly form a large share of the population because of outmigration of younger people. For example, the elderly's transfer and property income may make local economies less susceptible to variations in employment by local industries. The elderly's income also has multiplier effects: by spending their income, the elderly create jobs. Attracting elderly migrants has contributed to rural economic growth. The per capita income gap between metro and nonmetro counties narrowed only in nonmetro retirement counties that received substantial influxes of people at least 60 years of age.

However, the property and transfer income of the elderly has some drawbacks as a rural development tool. For example, the potential for attracting the elderly as a development strategy is limited by the number of elderly of adequate means who are willing to move. And, the jobs created by the elderly's spending may be relatively low-paying. Much of the elderly's spending goes for purchases from retail stores and service firms, which often pay relatively low wages. Some counties with a small population and business base may not benefit much from potential multiplier effects. Sufficient local businesses must exist, or the elderly will have to shop elsewhere.

The elderly should not be viewed solely as potential business customers. Many elderly are poor, 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, some will become frail, and some may outlive their assets. They may eventually need help.

Not all property income goes to elderly people of modest means who are drawing interest to use in their retirement. People of all ages in the upper income brackets who have accumulated assets also receive property income. Over time, a more unequal income distribution could develop in the nonmetro areas depending on property income.

About a third of the income of the elderly comes from Social Security. The share is even higher in nonmetro areas, about two-fifths. The future of the Social Security Program is critical to rural areas depending on income from migrating or native elderly. Anyone devising development strategies based on the income of the elderly must recognize the importance of Social Security, both now and in the future.

Glossary

Elderly

Anyone 65 years of age or over. When income levels and poverty status of the elderly are examined in this report, the elderly population is divided into two groups: the seniors and the aged.

Seniors
Anyone between the ages of 65 and 74 years.

Aged
Anyone 75 years of age or over.

Family

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

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 separate living quarters; if the occupants do not live or eat with any other people in the building; and if there is direct access from outside or indirect access through a common hall.

Income

Cash or other material benefits periodically received by persons, families, or households. Income is commonly classified as earned or unearned.

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

Unearned income
Income from property and transfer payments. Unearned income comes from sources other than earnings from employment. Unearned income often reflects earned income received earlier in life. For example, elderly people now receive Social Security and interest payments because they used some of their wages in the past to pay Social Security payroll taxes and to save.

Property income. Income from investments. Includes dividends, interest, net rental income, income from estates or trusts, and income from royalties and other investments.

- ***Dividends.*** Payments to stockholders of corporations organized to make a profit.

- ***Interest.*** Includes interest received from savings accounts, money market deposit accounts, certificates of deposit, and interest-bearing checking accounts held at banks, savings and loan associations, and credit unions. Interest also comes 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 individuals' accounts by life insurance companies and uninsured private pension funds.

- ***Rent.*** Income, after expenses, received from renting out real property. Depending on the data source, rent may or may not include imputed rent. Imputed rent is the net rental value of owner-occupied housing, after expenses. In other words, net imputed rent is equal to what homeowners would have paid to rent their housing unit, minus expenses.

- ***Royalties.*** Income from patents, copyrights, and rights to natural resources.

Transfer payments (transfers). Income for which no work was performed in the current period.

- ***Government transfer payments.*** Transfers provided by Government programs. The categories of Government transfer payments examined in this report are: retirement and related programs, medical payments, income maintenance, and veterans' benefits.

  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 payments, and black lung payments. Participation in these programs requires a previous work history.

  Medical payments. Benefits from three Government medical programs: Medicare, Medicaid, and Civilian Health and Medical Plan of the Uniformed Services (CHAMPUS). Medicare is paid to vendors of medical services on behalf of elderly and disabled Social Security recipients. Medicaid is paid to vendors of medical care on behalf of certain groups of needy people. CHAMPUS payments are for medical treatment at civilian facilities of dependents of active military personnel and retired military personnel and their dependents.

  Income maintenance. Government 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); Special Supplemental Food Program for Women, Infants, and Children (WIC); general assistance; refugee assistance; and foster home care payments.

  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.

- ***Private transfer payments.*** Transfer payments from a source other than the Government. Includes private retirement benefits, income from relatives or friends, charity, alimony, and child support.

  Private retirement. Company or union pensions; other private payments for retirement, disability, or survivors; and income from paid-up life insurance policies or annuities.

Local area personal income

Income received by all the residents of a county or county-equivalent area. It is calculated as the total income received by local people from wages and salaries, other labor income, self-employment, property income, and transfer payments, minus personal contributions for social insurance.

Metro areas

Defined by the U.S. Office of Management and Budget as geographic areas with a large population nucleus, plus adjacent communities that are economically and socially integrated with that nucleus. Metro areas generally have a central city or urban core of at least 50,000 residents and a total population of 100,000 or more.

Nonmetro areas

Territories outside metro areas. Nonmetro data are commonly used to represent rural areas and small towns.

Poor

Belonging to a family with an income below the poverty threshold. In the computer data file used to determine poverty status in this report, each person is assigned 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 varies with the size of family, age of family head, and number of children. The poverty level for the entire 12-month period is the sum of the 12 monthly poverty levels. If the sum of the 12 income amounts is less than the 12-month poverty level, the person is considered to be poor. This procedure differs from that used to derive the official poverty statistics from the Current Population Survey. The official procedure fixes family composition as of the March interview, adds family members' income during the previous calendar year, and compares the sum to an annual poverty threshold.

Retirement counties

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

The Role of the Elderly's Income in Rural Development

Robert A. Hoppe*

Introduction

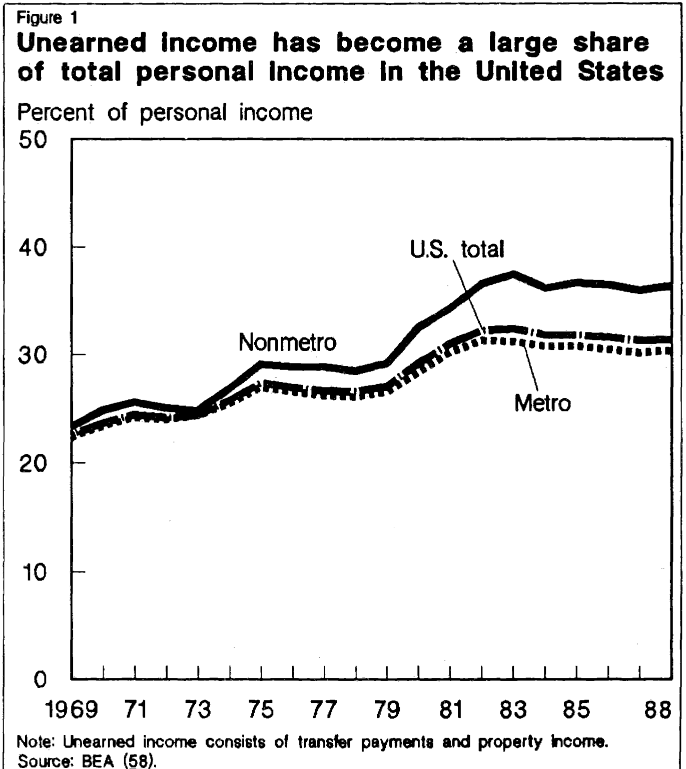
Some rural development specialists have suggested that property income (dividends, interest, and rent) and Government transfer payments (such as Social Security) can be developed as an economic base for local economies *(4, 5, 19, 34, 40, 41, 42, 45, 47, 48)*.[1] They often note that retirees, or the elderly, receive a disproportionate amount of these sources of unearned income (see Glossary for definitions).[2] Thus, efforts of local areas to attract retirees or to provide places for the local elderly to shop can ensure a relatively stable source of income for local businesses. Glen C. Pulver summarized this development strategy and the reasoning behind it:

> 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...*(34)*.

Rural development specialists investigating the income of the elderly emphasize the growing importance of unearned income (especially transfers) to nonmetro areas. Figure 1 shows data from the U.S. Department of Commerce's Bureau of Economic Analysis (BEA) often used to point out the large share of income from unearned sources. Much more income came from unearned sources in 1988 than in 1969, although the growth in unearned income's share of total income has leveled off. Development specialists generally state that a large share of unearned income goes to retirees or the elderly and suggest ways that local areas can capture this income. The research may also include examples of multiplier effects on local economies.

Elderly migrants apparently have contributed to nonmetro economic growth. Per capita income is generally lower in nonmetro than metro counties *(22, 23)*. However, the gap in per capita income between metro areas as a whole and various types

Figure 1
Unearned income has become a large share of total personal income in the United States



Note: Unearned income consists of transfer payments and property income.
Source: BEA (58).

* The author is a senior economist with the Agriculture and Rural Economy Division, Economic Research Service, U.S. Department of Agriculture.

[1] Italicized numbers in parentheses refer to sources cited in the References section.

[2] For a detailed discussion of the importance of unearned income in rural areas, see Bentley *(8)*. The word "unearned" is not derogatory; it identifies income from sources other than employment.

of nonmetro counties declined only in nonmetro retirement counties (see Glossary), those experiencing substantial inmigration of people at least 60 years of age *(17, 18)*. Both population and employment growth during the 1980's were higher in retirement counties than in other types of nonmetro counties *(14)*.[3]

The income of the elderly can also contribute to the economies of counties that have not attracted elderly migrants. All counties have a native elderly population in place. In nonmetro counties that have experienced substantial outmigration of younger people, the native elderly form a large portion of the population and can make an important contribution to the local economy. Reeder and Glasgow *(36)* identified 376 nonmetro counties that did not experience heavy inmigration of older people, but that had at least a sixth of their populations represented by the elderly. Retaining the elderly (and their income) may be critical to these local economies.

The potential role of the elderly's income as a development tool, however, should not be overemphasized. For example, the proportion of the elderly population that migrates to retirement areas is small. Older people generally stay where they spent most of their adult lives *(49)*. The elderly are actually less likely to migrate than other people. For example, only 0.9 percent of the population at least 65 years of age moved to another State between 1986 and 1987, compared with 3.1 percent of those under 65 years *(54)*. Elderly recipients of transfer and property income are less constrained by the location of a job than are people depending on earned income *(30)*. But, although these sources of unearned income make it possible for older people to migrate (to retirement areas, for example), the overwhelming majority do not do so.

This report examines the elderly's sources of income that could form an economic base for rural development. This report does not analyze levels and sources of income of the elderly by race, Hispanic origin, sex, labor force participation, or other detailed characteristics. Such an analysis would be useful for a complete assessment of the social and economic status of the elderly, but is beyond the scope of this report. For a discussion of the economic and social status of the rural elderly, see Glasgow *(13)*.

[3] The economic base of individual retirement counties, however, may include more than retirees. Not all of the growth in these counties can be attributed to inmigration of retirees.

Advantages and disadvantages of development strategies based on the income of the elderly should be weighed carefully. To realistically assess the rural development potential of the elderly's property and transfer income, we need to fill some gaps in our information about the income of the elderly. This report helps fill these gaps by exploring four questions:

- **What are the sources of income among the U.S. elderly?** Changes in legislation that affect a specific source of income could affect the elderly and, hence, nonmetro areas trying to attract the elderly.

- **What are the income levels among the U.S. elderly?** This question is particularly important to nonmetro areas with inmigration of the elderly. It is obviously better to attract the more affluent elderly, who have more money to spend. But how many are there?

- **What are the sources and levels of income among the nonmetro elderly?** For nonmetro areas that are unable to attract well-to-do elderly migrants, understanding the income of the elderly already in residence is important. For example, if the nonmetro elderly depend on different Government programs than do the elderly in general, nonmetro areas will want to closely monitor proposed legislative changes in these programs.

- **How large a share of various sources of income actually goes to the elderly?** In particular, how much of the property and transfer income reported by the BEA actually goes to the elderly? People other than the elderly can receive property income. Programs designed to serve the elderly, such as Social Security, also provide benefits to disabled workers and survivors of deceased workers. A vague assumption that a particular source of income goes largely to the elderly may be misleading.

Data and Definitions

The first three questions can easily be answered, given a suitable database, such as the Survey of Income and Program Participation (SIPP). The SIPP is a new survey that provides detailed data about income recipients. A combination of SIPP and BEA data are used to answer the fourth question. SIPP data are used alone to examine the elderly's share of various sources of income, while ratios developed from SIPP data are used to

allocate BEA income between the elderly and nonelderly.

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 equivalent area in the United States *(56)*. Transfers by program and earnings by industry are given in detail each year. The BEA aggregates the county data into 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.

However, the BEA data show only the income received by all people in a given area. The data do not provide information about who receives the income. For example, the BEA data provide no demographic information about income recipients. Therefore, the BEA data need to be supplemented with other data in order to find how much of each source of income goes to the elderly.

Survey of Income and Program Participation [4]

The SIPP provides information about the characteristics of people receiving various types of income. The survey was originally designed to provide detailed information about property and transfer income, among other topics. The SIPP is particularly suited for research about the elderly, who depend heavily on these sources of income. For more information about using the SIPP for research on the elderly, see McMillen, Taeuber, and Marks *(33)*.

The SIPP is a complex longitudinal survey. The survey collects monthly data continuously from the same people over a period lasting 2 years and 8 months. A new sample, or panel, is introduced each year. At any given time, two or three different panels may be in the field simultaneously. The households in each panel are assigned to one of four groups to be interviewed (rotation groups). In each interview period, or wave, all rotation groups are administered the same questionnaire. It takes 4 months to complete a wave, because only one rotation group is interviewed each month. During each interview, data for the previous 4 months are collected. Because the SIPP is a sample survey, it is subject to underreporting. (For more information about underreporting, see appendix 1.)

The Bureau of the Census, U.S. Department of Commerce, produced an edited, 12-month longitudinal research file that contains selected data from waves one through four of the first (1984) panel. An extract from that research file is the SIPP data source used in this report. The 12 months covered vary among rotation groups and do not form a particular fiscal or calendar year. The four 12-month periods are June 1983 through May 1984, July 1983 through June 1984, August 1983 through July 1984, and September 1983 through August 1984. The varying periods result from the complex monthly interviewing scheme described above. The research file uses the metro-nonmetro designations used in the 1980 census.

Because the quality of estimates from the longitudinal research file is still unknown, the data should be considered experimental and should be interpreted with caution. When the file was created, the Census Bureau was trying to resolve technical and methodological issues regarding the data set.

Defining the Elderly

The most common definition of the elderly is all persons 65 years of age and over, the traditional retirement age. Otto von Bismarck, the German Empire's "Iron Chancellor," is generally credited with selecting 65 as the minimum retirement age in the 1880's. But, he actually picked age 70. Germany later lowered the minimum age to 65 during World War I. Benefits were generous, but life was short, so Germany's retirement program cost little *(50)*. Because this cutoff was established long ago by a central European empire that no longer exists, it may not be particularly relevant today.

Some analysts use a range of definitions. Two Census Bureau publications *(43, 49)* used four definitions:

- The older population: age 55 (or 60) and over,
- The elderly population: age 65 and over,
- The aged population: age 75 and over, and
- The very old population: age 85 and over.

[4] The following description of the SIPP is largely based on Hoppe *(21)*.

Some characteristics vary by age among the older population. The incidence of poverty, for example, increases sharply with age *(49)*.

The elderly could be defined simply as those who have retired. Current retirement programs, both public and private, frequently allow and encourage workers to retire before age 65. Many people have taken advantage of the programs' early retirement provisions in recent years.

One common practice is to define the retired as those people above an arbitrary age, such as 55, who are not in the labor force *(37)*. This procedure, however, excludes those at least 65 years of age who continue to work. About 17 percent of men and 8 percent of women who were 65 years of age or over were still in the labor force in 1989 *(60)*. Excluding 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 conforms to tradition and simply defines the elderly as the population at least 65 years of age, as of the last month on the longitudinal research file. With this definition, the results can be compared with most other statistics and studies, which define the elderly the same way.

When income levels and poverty status of the elderly population are examined, the elderly population is divided into two groups: the seniors (65 through 74 years of age) and the aged (at least 75 years of age). Dividing the elderly into two age groups helps show how advancing age affects income levels and the incidence of poverty.

Unit of Observation

The unit of observation throughout most of this report is the household. When income levels of the elderly are examined, however, the person is the unit of observation. (This exception is discussed later.)

The aggregate income of the elderly is derived by summing all the income assigned to people living in a household where the householder is at least 65 years of age. This approach includes the income of nonelderly spouses of elderly householders and of younger relatives living in the same household. Using the household as the unit of observation recognizes that income is available to the elderly from younger household members, particularly younger spouses.

Significance Testing

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 at least 200,000 elderly households received that type of income in each area. Information from the longitudinal research file is of questionable reliability when based on fewer than 200,000 households *(11)*.

No significance tests were performed for BEA-based estimates. Statistical significance tests were not needed, because BEA unearned income data are based largely on administrative records and not a sample survey. Similarly, significance tests were not applied to comparisons between BEA- and SIPP-based estimates or to estimates based on BEA data allocated between the elderly and nonelderly by SIPP data.

The Elderly's Sources of Income

The percentage distribution of income by source was similar in metro and nonmetro areas (table 1). In other words, the metro and nonmetro elderly generally received about the same share of their income from each source. As expected, however, income per household was higher in metro than nonmetro areas. Most of the amounts per household from each source were higher in metro than nonmetro areas, although the differences were not always significant.

The elderly received a large portion of their income from Government transfer programs. These programs provided 53 percent of the elderly's income in nonmetro areas and 46 percent in metro areas. In other words, the elderly depended heavily on Government transfer programs, but the dependence was heavier in nonmetro than metro areas.

Social Security is particularly important to the nonmetro elderly. Social Security alone provided 40 percent of the elderly's income in nonmetro areas, compared with 35 percent in metro areas. 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, the next largest source of income.

Property contributed about a quarter of the elderly's income in both metro and nonmetro areas. Most of the elderly's property income came

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

Income source	All U.S. elderly households		Metro elderly households		Nonmetro elderly households	
	Per household	Distribution	Per household	Distribution	Per household	Distribution
	Dollars	*Percent*	*Dollars*	*Percent*	*Dollars*	*Percent*
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	.9	230	1.6**
Food stamps and Special Supplemental Food Program for Women, Infants, and Children (WIC)	37	.2	31	.2	51	.3
Veterans' benefits	181	1.0	157	.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

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

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

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

[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 *(55)*.

from interest. Their largest source of interest was savings institutions: banks, savings and loan associations, and credit unions (table 2). The elderly's preference for interest from savings institutions is understandable, because these institutions are well known and provide regular interest payments. The safety of deposits in these institutions may also be attractive to the elderly. In most savings institutions, up to $100,000 of each depositor's accounts is insured by Federal agencies.

About a fifth of the income of the elderly in both metro and nonmetro areas came from earnings (table 1). Some elderly work part- or full-time. Some of the earnings represent pay for work done early in the year by people who retired later in the year. Younger household members, such as younger spouses of elderly householders, also may have worked.

Private retirement was a relatively minor component of the elderly's income in both metro and nonmetro areas. Four factors help explain why private retirement provides such a small portion. First, not all workers in the private sector are covered by private pensions. Second, private pension plans are often integrated with Social Security *(6, 29, 31)*. That is, Social Security benefits are included in the formula when private pension benefits are calculated, which reduces costs that employers pay. Private pensions alone, therefore, are generally not intended to provide all, or even most, of retirees' income. Third, unlike Social Security, few private pension plans automatically adjust retirees' benefits for inflation *(29)*. 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 receive all or part of their pension benefits in one lump sum instead of monthly payments *(31)*. This reduces the income paid by the pensions during retirement.

Income Levels Among the Elderly

The lower household income among the nonmetro elderly is reflected in their higher poverty rate. Approximately 17.9 percent of the nonmetro

Table 2--Elderly households' property income by detailed source, 1983-84

Property income source	All U.S. elderly households		Metro elderly households		Nonmetro elderly households	
	Per household	Distribution	Per household	Distribution	Per household	Distribution
	Dollars	*Percent*	*Dollars*	*Percent*	*Dollars*	*Percent*
Total property income	4,372	100.0	4,706	100.0	3,592	100.0
Interest	2,881	65.9	3,080	65.4	2,416	67.3
From banks, savings and loan associations, and credit unions[1]	2,217	50.7	2,443	51.9	1,689**	47.0
From mortgages	170	3.9	187	4.0	132	3.7
From other sources[2]	494	11.3	451	9.6	596	16.6
Dividends	804	18.4	941	20.0	484**	13.5
Net income from rentals	295	6.7	265	5.6	366	10.2
Other property income[3]	392	9.0	420	8.9	326	9.1
Royalties and other investments	282	6.5	288	6.1	271	7.5

Note: Items may not add to totals due to rounding. The U.S. totals include a few cases that could not be assigned a metro or nonmetro residence.
**Significantly different from the metro estimate at the 90-percent level.
[1]Includes interest from savings accounts, money market deposit accounts, certificates of deposit, and interest-bearing checking accounts.
[2]Includes interest from money market mutual funds, U.S. Government securities, municipal and corporate bonds, and any other interest income not specified elsewhere.
[3]Includes income from estates or trusts not shown separately.
Source: SIPP *(55)*.

elderly were poor (table 3).[5] The poverty rate for the metro elderly was about half as high, at 8.5 percent.

Among the nonmetro elderly, the incidence of poverty increases with age. In nonmetro areas, the aged (age 75 or more) were more likely to be poor than were the seniors (age 65-74). The aged were also more likely to be poor in nonmetro areas than in metro areas. About a quarter of the nonmetro aged were poor, compared with only about a tenth of the nonmetro seniors or the metro aged. The nonmetro aged may have outlived their assets, or they simply may have never earned as much income as the nonmetro seniors or the metro aged.

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 show that many of the nonmetro elderly in residence 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

[5] Note that the person is the unit of observation in this section. Poverty status is provided only for persons on the longitudinal research file. Each person is assigned 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 considered poor *(21)*. See the definition of poor in the Glossary for more information.

Table 3--Family income compared to the poverty level, 1983-84

Item	Metro				Nonmetro			
	Non-elderly	Elderly			Non-elderly	Elderly		
		Total	Seniors[1]	Aged[2]		Total	Seniors[1]	Aged[2]
	Thousands							
Total population	151,838	18,552	11,257	7,295	50,106	7,765	4,811	2,954
Number of people whose ratio of family income to the poverty level was:								
Less than 1 (the poor)	18,344	1,583	808	775	7,335	1,387	641	746
1 to 1.999	27,857	5,223	2,625	2,598	13,162	2,488	1,342	1,146
2 to 2.999	33,537	4,606	3,008	1,598	11,629	1,768	1,293	475
3 to 3.999	26,833	2,916	1,943	973	7,691	980	704	276
4 or more	45,267	4,224	2,873	1,351	10,289	1,142	831	311
Share of the population whose ratio of family income to the poverty level was:	*Percent*							
Less than 1 (the poor)	12.1	8.5	7.2	10.6	14.6*	17.9*	13.3**	25.3*
1 to 1.999	18.3	28.2	23.3	35.6	26.3*	32.0	27.9	38.8
2 to 2.999	22.1	24.8	26.7	21.9	23.2	22.8	26.9	16.1
3 to 3.999	17.7	15.7	17.3	13.3	15.3*	12.6	14.6	9.3
4 or more	29.8	22.8	25.5	18.5	20.5*	14.7*	17.3*	10.5**

Note: Items may not add to totals due to rounding.
*Significantly different from the metro percentage at the 95-percent level.
**Significantly different from the metro percentage at the 90-percent level.
[1]Seniors are 65 to 74 years of age.
[2]The aged are 75 years old and over.
Source: SIPP *(55)*.

the spending of the local elderly may not yield many results in these areas.

Areas trying to attract the elderly obviously will direct their appeals to people with incomes well above the poverty level. Some areas may try to target the "comfortably retired," defined here as those whose income is at least twice the poverty level *(27)*. The comfortably retired elderly are a large market, approximately 15.6 million people--11.7 million in metro areas and 3.9 million in nonmetro areas (table 3).

Although many of the comfortably retired have high incomes, people whose income is at least double the poverty level are not necessarily affluent. Twice the poverty level equaled only $9,550 for one elderly person living alone and $12,038 for an elderly couple in 1983 (table 4). In comparison, the median income on the longitudinal research file was $10,352 for all unrelated individuals and $25,037 for all families.

In addition, as the comfortably retired advance in age, their income levels may come to resemble those of the aged. The future aged, however, may not become 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 the more recent retirees.

More selective areas may want to attract elderly with higher incomes to reduce future poverty problems among the aged. Appealing to higher income elderly, however, reduces the potential

Table 4--Multiples of the poverty level for elderly individuals and elderly couples, 1983

Income level	One person, 65 years and over	Couple, householder 65 years and over
	Dollars	
Poverty level	4,775	6,019
Two times poverty level	9,550	12,038
Three times poverty level	14,325	18,057
Four times poverty level	19,100	24,076

Source: *(53)*.

market. For example, areas directing their marketing efforts to people whose income is at least four times the poverty level would have a market of only 5.4 million people (table 3).

While attracting the more affluent elderly may help lessen an area's future poverty problems, such targeting efforts will not help in escaping other problems, not all of which 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...*(15)*.

As more people grow older, the incidence of health problems will increase, a fact that even retirement areas for the more affluent will have to face.

But, local areas do not bear all the costs of the elderly's health care. Government and private health insurance pay the most of the elderly's medical expenses *(28)*. For example, Medicare, Medicaid, and private insurance covered about 69 percent of the elderly's health care expenditures in 1984 *(62)*. Local taxes generated by retirement income may help offset local public costs *(28)*. And, providing health care for the elderly may 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 *(49)*. Migrating elderly, however, are likely to have a higher socioeconomic status than elderly who do not migrate. Elderly who migrate to other States or counties have higher family incomes and more education than elderly who do not move *(10)*.

In addition, some elderly migrate 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 *(9)*.

Nevertheless, the amount of income migrating retirees bring to an area can be substantial. Between 1985 and 1990, migrating retirees age

60 and over will have brought an estimated $1.7 billion of income to Florida from New York alone *(28)*. The potential economic gain has led 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...*(28)*.

In the ensuing competition, not all rural areas will be able to attract affluent retirees, just as some rural communities failed to attract industry in the past. State planners need to recognize that competing for elderly migrants has become more difficult for rural areas *(40)*.

The Elderly's Share of Income

It is difficult to make any generalizations about the share of property and transfer income that the elderly receive without examining each source of income separately. One cannot assume that the elderly receive most of the property and transfer income. As mentioned earlier, people other than the elderly receive property income. Programs that largely serve the elderly also provide benefits to the disabled and to survivors of deceased workers. On the other hand, the elderly receive benefits from programs that are not specifically designed to serve the elderly. For example, both poor elderly and poor nonelderly may receive food stamps.

This section examines what portion of various income sources actually goes to the elderly. It first reviews the SIPP data to find the elderly's share of selected sources of income. Knowing how much of the unearned income reported by the BEA goes to the elderly would be also useful, because BEA data are often used to indicate the elderly's importance to local economies. In estimating the portion of BEA unearned income that goes to the elderly, SIPP data are used to allocate BEA unearned income between the elderly and nonelderly.

SIPP Income

Table 5 presents SIPP estimates of total household income from various sources, the amount going to elderly households, and the percentage share going to elderly households. This information is presented for all U.S. households, nonmetro households, and metro households.

Earnings

As one would expect, elderly households received a small portion (3.5 percent) of total earned income in both metro and nonmetro areas. The elderly received a much higher share of unearned income than earnings.

Retirement and Related Programs

The elderly received about two-thirds of the benefits from retirement and related programs in both metro and nonmetro areas. The share of benefits going to the elderly, however, varied among programs. Social Security distributed the largest share to the elderly, about three-quarters of its benefits in both metro and nonmetro areas. The remaining benefits supported the disabled and their dependents, survivors of deceased workers, and people who retired before age 65.

Among retirement and related programs, military retirement paid the smallest portion of benefits to the elderly. At the national level, only 23 percent of military retirement benefits went to the elderly. (Military retirement was not shown in the table because it had too few nonmetro recipient households to provide reliable results. The program did have a sufficient number of recipient households at the national level, however.)

Retirement from the military can come fairly early in life:

> ...An average retiree is a master sergeant with 23 years of service. Under the 1987 military pay schedule, his annual retirement pay would be $12,000. Typically, he receives retirement pay for an average of 35 years starting in his early forties *(3)*.

In selecting a place to live, the relatively young military retirees may find job availability more important than amenities (such as scenery, a pleasant climate, or cultural activities) or a low cost of living.

Income Maintenance

The larger share of income maintenance going to the elderly in nonmetro areas reflects the nonmetro elderly's higher poverty rate. The nonmetro elderly also received a larger share of Supplemental Security Income, which makes up the bulk of the elderly's income maintenance, than did the metro elderly. Note that the percentage of the elderly's income from income maintenance was also higher in nonmetro areas (table 1).

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

Item	Total U.S. All households	Total U.S. Elderly households Amount	Total U.S. Elderly households Share	Metro All households	Metro Elderly households Amount	Metro Elderly households Share	Nonmetro All households	Nonmetro Elderly households Amount	Nonmetro Elderly households Share
	1,000 households		*Percent*	*1,000 households*		*Percent*	*1,000 households*		*Percent*
Total households	86,856	17,939	20.7	64,934	12,560	19.3	21,916	5,379	24.5*
	-----Million dollars----		*Percent*	*-----Million dollars----*		*Percent*	*----Million dollars----*		*Percent*
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*
Government transfer payments[2]	271,364	150,537	55.5	199,335	108,229	54.3	72,020	42,308	58.7**
Retirement and related programs[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 retirement	19,239	11,332	58.9	14,197	8,495	59.8	5,042	2,837	56.3
State and local government retirement	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 Security Income	8,727	3,414	39.1	6,412	2,175	33.9	2,315	1,239	53.5*
Food stamps and Special Supplemental Food Program for Women, Infants, and Children (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

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

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

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

[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, 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 *(55)*.

Private Retirement

The share of private retirement income going to the elderly seems low in both metro and nonmetro areas (table 5). This may reflect a trend toward lower retirement ages among private pension plans. That is, the share going to those at least age 65 would decrease if the share going to younger retirees increases. A Bureau of Labor Statistics survey found that many plans reduced the normal retirement age to under 65 between 1974 and 1983 *(7)*. Of the 187 plans examined, 148 required no minimum age, age 62, or an earlier age in 1983, compared with 102 of the same 187 plans in 1974. Although the plans examined did not form a representative sample, the plans covered a large number of workers and illustrate changing retirement provisions.

Property Income

The elderly received about the same share of total property income in metro (39 percent) and nonmetro (41 percent) areas. However, the nonmetro elderly received a significantly larger share of rental income than did the metro elderly.

Total Unearned Income

The elderly controlled about 52 percent of all transfers and 40 percent of all property income, or about 48 percent of total unearned income, as recorded by the SIPP. The elderly's share of total unearned income was slightly above the national average in nonmetro areas and slightly below the national average in metro areas. However, the metro-nonmetro difference was not statistically significant.

BEA Property and Transfer Income

One cannot assume that the elderly's 48-percent share of property and transfer income derived from the SIPP also applies to the BEA data, because income is defined differently in the two data sources. For example, BEA data include Medicare and Medicaid, imputed rent and imputed interest, and Government and business payments to nonprofit institutions. All these items are excluded from income in the SIPP. BEA data, on the other hand, exclude income from private pensions *(24)*, which the SIPP includes. Therefore, an estimate of the elderly's unearned income needs to be developed specifically for the BEA data.

To estimate what share of BEA unearned income went to the elderly, I first calculated the elderly's percentage shares of various sources of unearned income from SIPP data. The appropriate percentage shares were then applied to the corresponding dollar amounts in the BEA data to estimate the elderly's dollar amounts. Due to a lack of income data, data other than income receipts were used in a few cases to allocate the BEA income. For a more detailed explanation of the methods used to allocate BEA transfer and property income between the elderly and nonelderly, see appendix 2.

Three BEA items--payments to nonprofit institutions, imputed interest, and imputed rent--were not allocated between the elderly and nonelderly because these items 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 the payments go to organizations, not directly to people. The other two items, imputed interest and imputed rent, are necessary to estimate total personal income. This imputed income, however, is not accessible to consumers for spending. For example, most imputed interest consists of income withheld by life insurance companies and private pension funds in people's accounts. This income remains with the insurance company or pension fund and is not immediately available for spending. (See appendix 2 for more details.)

Table 6 summarizes the results of the allocation procedure and compares them with the results from the SIPP. The elderly receive about 53 percent of transfers and 32 percent of property income, or about 42 percent of all unearned income recorded by BEA. Note that the elderly's shares of property income and total unearned

Table 6--Elderly households' share of unearned income in 1983-84

Unearned income	From BEA, allocated with SIPP[1]	From SIPP[2]
	Percent	
Total unearned income	41.7	47.6
Transfer payments	52.7	52.4
Property income	31.8	39.7

[1]From appendix table 2.
[2]From table 5.

income are substantially lower in the BEA data (column 1) than in the SIPP data (column 2), largely because of the exclusion of imputed interest, which makes up 29 percent of BEA property income.

The elderly can have an important effect on local economies, but the effects may be smaller than previously assumed. BEA data are often used to suggest the amount of income controlled by the elderly.[6] But the allocation procedure shows that using the unearned income reported by the BEA as an indicator of the elderly's income can be misleading.

Transfer payments and property income, as recorded by the BEA, are a large source of income, amounting to $1 trillion in the 1983-84 period examined here. But, the elderly control only about two-fifths of that amount; the elderly do not control the other three-fifths. Therefore, efforts to attract the migrating elderly or to provide places where the local elderly can buy goods and services will not necessarily capture much of the local unearned income that the BEA records. Even in retirement counties, a substantial share of BEA unearned income is likely to go to the nonelderly.

Implications

Property and transfer income has grown rapidly in recent years and now forms a large share of total income, particularly in nonmetro areas (fig. 1). Although the elderly formed only 21 percent of all households, the elderly received nearly half of the income from these sources, as recorded in the 1983-84 SIPP data (table 5). The elderly's unearned income obviously can affect nonmetro areas that attract migrating elderly. The elderly's income also can benefit nonmetro areas where the elderly form a large share of the population because of outmigration of younger people. The importance of these sources of income would have been greater if retirees younger than age 65 were considered.[7]

Attracting elderly migrants apparently 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 a substantial influx of people at least 60 years old. 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.

Using unearned income reported by the BEA as an indicator of the income controlled by the elderly can be misleading. Assuming that BEA property and transfer income goes mostly to the elderly may overstate the potential effect of the elderly's income. The elderly control only about 42 percent of the total transfer and property income recorded by the 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 business customers. Many elderly are poor, particularly in nonmetro areas (table 3). For some nonmetro areas, providing needed services--such as medical facilities and transportation--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. But, as they age, many may become frail or outlive their assets. They, too, may need help.

Local areas, however, do not bear all the costs of health care for the elderly. The Government is the largest provider for the elderly's medical expenses. But, part of the cost of medical care for the elderly poor is paid by State governments through Medicaid, the medical program for the poor. The portion of Medicaid benefits financed by State governments ranges from 21.2 to 50 percent, depending on the State *(62)*. Some policymakers fear that heavy inmigration of the elderly who later qualify for Medicaid could strain the finances of particular States *(25)*. Medicaid is particularly important in paying for nursing home care. The program paid about 41 percent of the elderly's nursing home costs in 1984 *(62)*.

Careful planning in retirement counties can help alleviate some of the problems caused by deteriorating physical or financial health. Some analysts have even suggested marketing remote communities only for the younger elderly:

> Policy makers and [social work] practitioners can either begin now to plan

---

[6] For example, see Pulver *(34)* or Summers and Hirschl *(48)*.

[7] However, the size of the population retiring before age 65 should not be exaggerated. For example, men at least 60 years of age in 1989 who were not in the labor force equaled 12.4 million, which is only 2.1 percent higher than the total number of men over age 65 *(60)*. Relatively few men under age 60 appear to consider themselves retired. In the fourth quarter of 1989, only 3.3 percent of men reporting retirement as a reason for not being in the labor force were younger than age 60 *(61)*.

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...*(51)*.

The elderly's property and transfer income can create jobs and provide a stable source of income for rural areas. Dependence on transfer payments, however, also makes local economies more sensitive to changes in Government programs. Changes in the Social Security Program are particularly important, given the share of the elderly's income that it provides. Neither the local economic effects of unearned income nor the future of Social Security can be examined directly from the data presented in this report. Nevertheless, these issues should be addressed in any discussion of the elderly's unearned income and its implications for rural development.

Local Economic Impact

The elderly's unearned income can benefit local economies. For example, property and transfer income may 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 *(44)*.

Property and transfer income also have strong income multiplier effects in nonmetro counties, regardless of the counties' economic specialization *(39)*. Hirschl and Summers found that Social Security also has large employment multipliers *(19)*. 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 expansion in 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,[8] which often pay relatively low wages *(40)*. However, households in general spend heavily on the same types of goods and services. The low-wage criticism of the multiplier effects, therefore, 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 benefit from potential multiplier effects. For example, Sanford's regression model to estimate income multipliers worked best for large counties, those having at least 1 town with a population of 2,500 or more residents:

> The relatively poor performance of the model for the small county groups may be due to the lack of economic development in those counties. By definition, these small counties have no urban place of greater than 2500 residents. In such an undeveloped area, the service sector may likewise be undeveloped. When services exist in close proximity, yet outside county boundaries, county residents may spend their money elsewhere. In this situation, the small, undeveloped community is simply unable to capture income...*(39)*.[9]

Not all property income goes to elderly people of modest means. People of all ages in the upper income brackets who have accumulated assets also receive property income. Over time, a more unequal local income distribution could develop in nonmetro areas depending upon property income *(22)*.

---

[8] Based on personal consumption expenditures data from Lazer and Shaw *(26)*. About 48 percent of the spending by households with a senior householder went for food, clothing, house furnishings and equipment, autos, gasoline, auto repair, personal care, entertainment, alcohol, and tobacco. Only 37 percent of purchases by households with an aged householder went for those items. Aged households devoted more of their expenditures to shelter, utilities, health care, and charitable contributions.

[9] The service sector in the quote includes industries producing for the local, or residentiary, market. The remaining industries, forming the basic sector, attract income from outside the area *(39)*.

The Future of Social Security

About a third of the income of the elderly comes from Social Security (table 1). The fraction is even higher in nonmetro areas, about two-fifths. Thus, the future of the Social Security Program is critical to rural areas depending on retirement income from either migrating or native elderly. Social Security benefits come from a trust fund built up through payroll taxes. Areas pursuing the income of the elderly must be aware of the current and future status of the trust fund.

The Social Security retirement and disability trust fund is currently building a large surplus to help pay the future benefits of the "baby boomers" *(16)*. This surplus will be drawn down by retirees starting in 2030 and, barring future payroll tax increases, will turn into a deficit by 2051.

Aaron, Bosworth, and Burtless estimate that payroll taxes need to be raised an additional 6.9 percentage points over the next 75 years to pay for both Social Security and Medicare *(1)*. That rise represents a 45-percent increase in the 15.3-percentage-point rate currently paid by employees and employers to support Social Security and Medicare.[10] Without strong economic growth, these increases would impose substantial tax burdens on future workers and employers to maintain the current benefit levels. (For a more detailed discussion of the future of Social Security and the relationship between the program and the economy, see appendix 3.)

Beyond the Elderly

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, can devise both a shortrun development strategy based on the elderly's income and a second development strategy more appropriate for the long run. The two strategies could be followed simultaneously.

For example, Hite suggests that some rural areas in the South could develop a service-oriented economy centered on retirees while simultaneously developing human capital through education *(20)*.

[10] Employees and employers each pay half of the Social Security and Medicare payroll taxes. The combined tax currently is 15.3 percent on the first $51,300 of wages *(12, 62)*. An additional 2.9 percent is applied to wages between $51,300 and $125,000.

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. But, 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 microclimate 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 *(20)*.

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

The combined retirement-education strategy has another potential problem. Outmigration from nonmetro areas is highest among better educated people *(32)*. Unless more jobs requiring better educated workers are created in nonmetro areas, developing human capital could lead to higher outmigration.

A Final Note

The goal of this report is neither to discredit using the income of the elderly as a development tool nor to alarm people about the future of Social Security. Capturing the income of the elderly in local economies can be a viable development option for some rural areas.

But, the property and transfer income of the elderly is not a rural development panacea in either the short or the long run. The income of the elderly and its relationship to the local economy is a complex topic. Anyone devising development strategies based on the income of the elderly must also monitor these income sources, now and in the future.

References

(1) Aaron, Henry J., Barry P. Bosworth, and Gary Burtless. *Can America Afford to Grow Old? Paying for Social Security.* Washington, DC: The Brookings Institution, 1989.

(2) Allen, Jodie T. "The $40-Billion Bonanza: Why Social Security Is Ripe for Political Plucking," *The Washington Post,* May 29, 1988, pp. C1 and C2.

(3) Arguden, R. Yilmaz. "There is No Free Lunch: Unintended Effects of the New Military Retirement System," *Journal of Policy Analysis and Management,* Vol. 7, No. 3 (Spring 1988), pp. 529-41.

(4) Bain, John S. "Transfer Payment Impacts on Rural Retail Markets," *Community Economics.* Dept. of Agr. Econ., University of Wisconsin--Madison, May 1982.

(5) ______________. "Transfer Payment Impacts on Rural Retail Markets: A Regression Analysis," unpublished paper, Dept. of Agr. Econ., University of Wisconsin--Madison, June 1, 1982.

(6) Bell, Donald, and Diane Hill. "How Social Security Payments Affect Private Pensions," *Monthly Labor Review,* Vol. 107, No. 5 (May 1984), pp. 15-20.

(7) Bell, Donald, Diane Hill, and William Marclay. "Trends in Retirement Eligibility and Pension Benefits, 1974-83," *Monthly Labor Review,* Vol. 110, No. 4 (Apr. 1987), pp. 18-25.

(8) Bentley, Susan E. *Transfer Payments and Investment Income in the Nonmetro United States,* RDRR-71. U.S. Dept. Agr., Econ. Res. Serv., June 1988.

(9) Biggar, Jeanne C. *The Graying of the Sunbelt: A Look at the Impact of U.S. Elderly Migration,* Population Trends and Public Policy, No. 6. Washington DC: Population Reference Bureau, Inc., Oct. 1984.

(10) __________. "Who Moved Among the Elderly, 1965 to 1970: A Comparison of Types of Older Movers," *Research on Aging,* Vol. 2, No. 1 (Mar. 1980), pp. 73-91.

(11) Coder, John F., Dan Burkhead, Angela Feldman-Harkins, and Jack McNeil. *Preliminary Data from the SIPP 1983-84 Longitudinal Research File,* Survey of Income and Program Participation Working Paper Series, No. 8702. U.S. Dept. Comm., Census Bur., Mar. 1987.

(12) Dentzer, Susan. "Paycheck Politics: A Plan to Cut Social Security Taxes Makes Washington Flip Out," *U.S. News & World Report,* Vol. 108, No. 4 (Jan. 29, 1990), pp. 16-18.

(13) Glasgow, Nina L. *The Nonmetro Elderly: Economic and Demographic Status,* RDRR-70. U.S. Dept. Agr., Econ. Res. Serv., June 1988.

(14) _____________. "Nonmetropolitan Retirement Migration: Economic and Political Implications," Paper presented at the conference: "Retirement Migration: Boon or Burden?" University of North Carolina--Asheville, May 1988.

(15) Greenwald, Mathew. "Bad News for the Baby Boom," *American Demographics,* Vol. 11, No. 2 (Feb. 1989), pp. 34-37.

(16) Hambor, John C. "Economic Policy, Intergenerational Equity, and the Social Security Trust Fund Buildup," *Social Security Bulletin,* Vol. 50, No. 10 (Oct. 1987), pp. 13-18.

(17) Henry, Mark, Mark Drabenstott, and Lynn Gibson. "A Changing Rural America," *Economic Review* (Federal Reserve Bank of Kansas City), July/Aug. 1986, pp. 23-41.

(18) _____________. "Rural Growth Slows Down," *Rural Development Perspectives,* Vol. 3, No. 3 (June 1987), pp. 25-30.

(19) Hirschl, Thomas A., and Gene F. Summers. "Cash Transfers and the Export Base of Small Communities," *Rural Sociology,* Vol. 47, No. 2 (Summer 1982), pp. 295-316.

(20) Hite, James C. "Agriculture and Rural Development Issues in the South: Historical Perspectives and Overview," *Agricultural and Rural Development Issues in the South,* David Mulkey and Rodney L. Clouser, eds., SNREC Publication No. 25. Southern Natural Resources Economics Committee, Southern Rural Development Center, Farm Foundation, Nov. 1987. Proceedings of a regional workshop, Knoxville, Tennessee, May 14-15, 1987.

(21) Hoppe, Robert A. *Defining and Measuring Nonmetro Poverty: Results from the Survey of Income and Program Participation,* Survey of Income and Program Participation Working Paper Series, No. 8822. U.S. Dept. Comm., Census Bur., Nov. 1988.

(22) ____________. "Shifting Income Patterns: Implications for Nonmetro America," *Rural Development Perspectives,* Vol. 3, No. 2 (Feb. 1987), pp. 2-5.

(23) Hoppe, Robert A., and Donald L. Bellamy. "Rural Poverty: A Continuing Problem," Lecture presented to the Washington Statistical Society, Washington, DC, May 1989.

(24) Hoppe, Robert A., and William E. Saupe. *Transfer Payments in Nonmetro Areas,* ERS Staff Report No. AGES820827. U.S. Dept. Agr., Econ. Res. Serv., Sept. 1982.

(25) Kahley, William J. "Interregional Migration: Boon or Bane for the South?" *Economic Review* (Federal Reserve Bank of Atlanta), Jan./Feb. 1989, pp. 18-34.

(26) Lazer, William, and Eric H. Shaw. "How Older Americans Spend Their Money," *American Demographics,* Vol. 9, No. 9 (Sept. 1987), pp. 36-41.

(27) Longino, Charles F., Jr. "The Comfortably Retired and the Pension Elite," *American Demographics,* Vol. 10, No. 6 (June 1988), pp. 22-25.

(28) Longino, Charles F., Jr., and William H. Crown. "The Migration of Old Money," *American Demographics,* Vol. 11, No. 10 (Oct. 1989), pp. 28-31.

(29) Lovejoy, Lora Mills. "The Comparative Value of Pensions in the Public and Private Sectors," *Monthly Labor Review,* Vol. 111, No. 12 (Dec. 1988), pp. 18-26.

(30) Manson, Gary A., and Richard E. Groop. "Concentrations of Nonemployment Income in the United States," *The Professional Geographer,* Vol. 40, No. 4 (Nov. 1988), pp. 444-50.

(31) McGill, Dan M. *Fundamentals of Private Pensions.* Published for the Pension Research Council, Wharton School, University of Pennsylvania. Homewood, IL: Richard D. Irwin, Inc., 1979.

(32) McGranahan, David A. "Rural Workers at a Disadvantage in Job Opportunities," *Rural Development Perspectives,* Vol. 4, No. 3 (June 1988), pp. 7-12.

(33) McMillen, David B., Cynthia M. Taeuber, and Jennifer Marks. *Using the Survey of Income and Program Participation for Research on the Older Population,* Survey of Income and Program Participation Working Paper Series, No. 8503. U.S. Dept. Comm., Census Bur., Sept. 1985.

(34) Pulver, Glen C. "Economic Growth in Rural America," *New Dimensions in Rural Policy: Building upon Our Heritage.* U.S. Congress, Joint Economic Committee, July 5, 1986.

(35) Rauch, Jonathan. "Cracking the Nest Egg," *National Journal,* Sept. 24, 1988, pp. 2,395-98.

(36) Reeder, Richard J., and Nina L. Glasgow. "The Economic Development Consequences of Growing Elderly Populations in Nonmetro Counties," Paper presented at the Southern Regional Science Association's annual meeting, Chapel Hill, NC, Apr. 1989.

(37) Rones, Philip L. "Using the CPS to Track Retirement Trends Among Older Men," *Monthly Labor Review,* Vol. 108, No. 2 (Feb. 1985), pp. 46-49.

(38) Ryscavage, Paul. "Reconciling Divergent Trends in Real Income," *Monthly Labor Review,* Vol. 109, No. 7 (July 1986), pp. 24-29.

(39) Sanford, Scott. "Basic Income Multipliers in Nonmetropolitan U.S. Counties," Paper presented at the Southern Agricultural Economics Association annual meeting, New Orleans, LA, 1988.

(40) Schneider, Mary Jo. "Arkansas Growth Industry: Retirement," *Arkansas Business and Economic Review,* Vol. 20, No. 1 (1987), pp. 1-8.

(41) Schneider, Mary Jo, and Bernal L. Green. *Retirement Counties: A Development Option for the Nineties,* Special Report 134. Arkansas Agr. Exp. Sta., Div. of Agr., University of Arkansas, in cooperation with Econ. Res. Serv., U.S. Dept. Agr., Feb. 1989.

(42) Shaffer, Ron. "The Silver-Haired Economic Base," *Community Economics.* Dept. of Agr.

Econ., University of Wisconsin--Madison, Jan. 1981.

(43) Siegel, Jacob S., and Maria Davidson. "Demographic and Socioeconomic Aspects of Aging in the United States," *Current Population Reports,* Series P-23, No 138. U.S. Dept. Comm., Census Bur., Aug. 1984.

(44) Smith, Gary. *Transfer Payments and Investment Incomes: Sources of Growth and Cyclical Stability for Nonmetro Counties of Oregon and Washington,* Research Bulletin 0981. Agr. Res. Ctr., College of Agr. and Home Econ., Washington State University, 1986.

(45) Smith, Gary, David B. Willis, and Bruce A. Weber. "The Aging Population, Retirement Income and the Local Economy," *Community Economics,* WRDC 36. Western Rural Dev. Ctr., Oregon State University, July 1987.

(46) Srodes, James. "Surplus Temptations," *Financial World,* Vol. 157, No. 11 (May 17, 1988), pp. 16-17.

(47) Summers, Gene F., and Thomas A. Hirschl. "Capturing Cash Transfer Payments and Community Economic Development," *Journal of the Community Development Society,* Vol. 16, No. 2 (1985), pp. 121-32.

(48) _____________. "Retirees as a Growth Industry," *Rural Development Perspectives,* Vol. 1, No. 2 (Feb. 1985), pp. 13-16.

(49) Taeuber, Cynthia M. "America in Transition: An Aging Society," *Current Population Reports,* Series P-23, No 128. U.S. Dept. Comm., Census Bur., Sept. 1983.

(50) Thurow, Lester C. *The Zero-Sum Solution: Building a World-Class American Economy.* New York, NY: Simon and Schuster, 1985.

(51) Tripple, Patricia, A., Barbara A. Gunn, and Marjorie B. Keiser. "A Rural Retirement Community's Attitudes Toward Allocation of Tax Dollars," *Human Services in the Rural Environment,* Vol. 12, No. 2 (Fall 1988), pp. 26-31.

(52) U.S. Congress, Joint Committee on Printing. *Congressional Record,* Vol. 136, No. 149 (Oct. 26, 1990), p. H 12,603.

(53) U.S. Department of Commerce, Bureau of the Census. "Characteristics of the Population Below the Poverty Level: 1983," *Current Population Reports,* Series P-60, No. 147. Feb. 1985.

(54) _____________. "Geographical Mobility: March 1986 to March 1987," *Current Population Reports,* Series P-20, No. 430. Apr. 1989.

(55) _____________. Survey of Income and Program Participation (SIPP) 1983-84 Longitudinal Research File, 1987.

(56) U.S. Department of Commerce, Bureau of Economic Analysis. *Local Area Personal Income, 1981-86,* Vol. 1, Summary. July 1988.

(57) _____________. "National Income and Product Accounts Tables," Table 8.8--Interest Paid and Received, *Survey of Current Business,* Vol. 68, No. 7 (July 1988), p. 101.

(58) _____________. Personal income by major source and transfer payments by source for 1969-87, unpublished computer printouts, 1989.

(59) _____________. "The U.S. National Income and Product Accounts: Revised Estimates," *Survey of Current Business,* Vol. 66, No. 7 (July 1986), pp. 7-23.

(60) U.S. Department of Labor, Bureau of Labor Statistics. "Annual Averages--Household Data," Table 3--Employment status of the civilian noninstitutional population by age, sex, and race, *Employment and Earnings,* Vol. 37, No. 1 (Jan. 1990), p. 162.

(61) _____________. "Quarterly Household Data," Table A-54--Persons not in the labor force by reason, sex, and age, *Employment and Earnings,* Vol. 37, No. 1 (Jan. 1990), p. 61.

(62) U.S. House of Representatives, Committee on Ways and Means. *Background Material and Data on Programs within the Jurisdiction of the Committee on Ways and Means,* Committee Print WMCP 101-4. Mar. 15, 1989.

(63) Wade, Alice H. "Social Security Area Population Projections: 1987," *Social Security Bulletin,* Vol. 51, No. 2 (Feb. 1988), pp. 3-30.

Appendix 1: Underreporting

The Census Bureau uses a different approach in producing the SIPP data than the BEA uses in the local area income series. The BEA bases estimates of local income largely on administrative records kept by various agencies, as well as on surveys and censuses conducted by organizations other than the BEA *(56)*. The Census Bureau, in contrast, bases SIPP estimates on a sample survey.

Survey respondents may not report all their income to the SIPP interviewer, either as an oversight or from 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 1 compares the sizes of selected income sources in both BEA and SIPP data. However, one should remember that both sets of numbers are estimates based on different procedures. The BEA data also are not error-free. For a discussion of how different measuring procedures can result in different income estimates, see Ryscavage *(38)*.

Underreporting is a problem for all sample surveys. The SIPP has made some progress in reducing underreporting for some income sources, although underreporting continues for other sources *(11)*.

Despite underreporting, the SIPP provides valuable data. The SIPP fills a gap in our knowledge--it provides information about the people who receive various sources of income. The BEA data show only the income from a given source that flows into an area. They cannot 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 nonmetro areas.

Appendix table 1--Comparisons of SIPP and BEA estimates of selected income sources, 1983-84

Source of income	SIPP amount	BEA amount[1]	SIPP as percentage of BEA
	Million dollars		*Percent*
Social Security	148,949	169,071	88.1
Railroad retirement	5,540	6,040	91.7
Federal civilian retirement	19,239	21,679	88.7
Military retirement	15,577	15,772	98.8
State and local government retirement	16,706	22,702	73.6
Supplemental Security Income	8,727	9,927	87.9
Aid to Families with Dependent Children	11,678	14,531	80.4
Food stamps	9,108	10,852	83.9
Unemployment compensation	14,346	20,822	68.9
Veterans' compensation and pensions	9,283	13,532	68.6
Veterans' education benefits	1,058	1,363	77.6
Interest[2]	113,394	276,482	41.0
Dividends	37,949	72,403	52.4

[1]Adjusted to correspond to the 1983-84 time period used in the longitudinal research file. The adjustment procedure is the same as that used in Coder, Burkhead, Feldman-Harkins, and McNeil *(11)*.
[2]Includes only the monetary portion of interest.
Sources: SIPP *(55)* and BEA *(58)*.

Appendix 2:
Allocating BEA Unearned Income

SIPP data were used to estimate the elderly's share of BEA transfer and property income. 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 then applied to the corresponding items from BEA estimates of benefits paid (app. table 2).[11] Many of the allocation factors in appendix table 2 also appear in table 5. Medical payments, mostly Medicare and Medicaid insurance, were allocated by months of coverage rather than by benefit receipts, because the SIPP did not provide benefit data for these programs. A few items (veterans' life insurance benefits, other assistance to veterans, other payments to individuals, and business payments to individuals) were allocated by the elderly's share of total households, for want of a better allocation procedure.

Estimates of the elderly's share of BEA income were prepared only as a U.S. total; metro and nonmetro estimates were not prepared. To do so would have attributed more precision to the allocation procedure than was justified. Some of the sources in appendix table 2 provided income to relatively few households, even at the national level. Providing metro and nonmetro estimates would require frequent calculations of percentages based on fewer than 200,000 elderly recipient households. Even at the national level, fewer than 200,000 elderly households received other income maintenance or educational assistance to veterans.

Three items--payments to nonprofit institutions, imputed interest, and imputed rent--were not allocated because they are not spendable. Income from these sources does not go directly to people to spend locally nor does it provide in-kind goods or services that people would otherwise have to buy or do without. Government and business payments to nonprofit institutions go to organizations, not directly to people. Imputed interest and imputed rent are necessary to estimate total personal income. This imputed income is not accessible to consumers for spending and should be examined in greater detail.

The definition of imputed interest is long and detailed:

> ...Imputed interest represents the excess of income received by financial intermediaries from funds entrusted to them by persons over income disbursed by these intermediaries to persons. Part of imputed interest reflects the value of financial services rendered without charge to persons by depository institutions. The remainder is the property income held by life insurance companies and private noninsured pension funds on the account of persons; one example is the additions to policyholder reserves held by life insurance companies *(56)*.

In 1987, approximately 61 percent of total imputed interest income consisted of income withheld by life insurance companies and uninsured pension funds *(57)*. The remaining 39 percent was the value of services, such as check clearing, provided free of charge by depository institutions.

Excluding imputed interest from the allocations may seem arbitrary, because other noncash items, such as food stamps, were allocated. However, imputed interest differs from other types of noncash income. Food stamps are practically the same as cash as far as local spending for groceries is concerned. A similar argument can be made about the relationship between medical programs, such as Medicare and Medicaid, and local medical expenditures.

But, the relationship between local spending and the large portion of imputed interest withheld by life insurance companies and pension funds is more tenuous. While people benefit from this interest income, the interest is not in a form that can be spent immediately. The withheld interest is inaccessible to recipients and has no immediate effect on their spending.

The other portion of imputed interest, representing services provided free of charge by banks and other depository institutions, is more difficult to dismiss. One could argue that these free services release consumers' income for other spending. Ideally, the services should be enumerated locally and then priced to estimate a value.

---

[11] The SIPP income data were from late 1983 and early 1984, with 46 percent of the observations from 1983 and 54 percent from 1984. Because the BEA data were for calendar years, the amounts in the first column of appendix table 2 were calculated by adding 46 percent of the item from 1983 plus 54 percent of the corresponding item from 1984. Coder, Burkhead, Feldman-Harkins, and McNeil developed this adjustment procedure when comparing SIPP data from the longitudinal research file with 1983 and 1984 data from the Current Population Survey *(11)*.

However, this portion of imputed interest is actually calculated as the income depository institutions earn on deposits minus the monetary interest paid on those deposits *(59)*. This residual is not calculated at the local level. The residual is instead allocated from the national level to each county in proportion to the cash interest received by people in the county *(56)*. It is difficult to see the connection between this residual and the availability of money for local spending, particularly when the residual is calculated from national-level data.

Imputed rent is easier to define and comprehend than is imputed interest. Imputed rent is the net rental value of owner-occupied housing *(56)*. Note in appendix table 2 that imputed rent was negative. In other words, housing expenses cost homeowners more than they would have paid for rent. 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 appendix table 2.

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

Appendix table 2--Elderly households' BEA unearned income, 1983-84

Source of unearned income	BEA unearned income	Elderly's share of spendable items[1]	Elderly's spendable amount	Elderly's share of unearned income
	Million dollars	*Percent*	*Million dollars*	*Percent*
Total unearned income	**954,808**	**NA**	**397,804**	**41.7**
Total transfer payments	**450,776**	**NA**	**237,627**	**52.7**
Government transfer payments to individuals	424,979	NA	234,813	55.3
Retirement and related programs	242,169	NA	162,742	67.2
Social Security	169,071	75.6	127,817	75.6
Railroad retirement	6,040	68.9	4,162	68.9
Federal civilian employee retirement	21,679	58.9	12,769	58.9
Military retirement	15,772	22.7	3,580	22.7
State and local government employee retirement	22,702	58.9	13,372	58.9
Other disability and retirement payments[2]	6,905	15.1	1,043	15.1
Medical payments[3]	99,032	61.5[4]	60,905	61.5
Income maintenance	40,940	NA	5,443	13.3
Supplemental Security Income	9,927	39.1	3,882	39.1
Aid to Families with Dependent Children	14,531	2.5	363	2.5
Food stamps	10,852	7.1	770	7.1
Other income maintenance[5]	5,629	7.6[6]	428	7.6
Unemployment insurance benefits	20,822	2.9	604	2.9
Veterans' benefits	16,354	NA	5,025	30.7
Pensions and compensation	13,532	34.9	4,723	34.9
Education assistance	1,363	0	0	0
Life insurance benefits	1,417	20.7[7]	293	20.7
Other assistance	41	20.7[7]	8	20.7
Federal education and training assistance[8]	5,206	0[9]	0	0
Other payments to individuals[10]	457	20.7[7]	95	20.7
Government and business payments to nonprofit institutions	12,205	NS	0	0
Business payments to individuals[11]	13,592	20.7[7]	2,814	20.7

See footnotes at end of table.

Continued--

Appendix table 2--Elderly households' BEA unearned income, 1983-84--Continued

Source of unearned income	BEA unearned income	Elderly's share of spendable items[1]	Elderly's spendable amount	Elderly's share of unearned income
	Million dollars	*Percent*	*Million dollars*	*Percent*
Total property income	**504,032**	**NA**	**160,178**	**31.8**
Dividends	72,403	38.0	27,513	38.0
Interest	420,956	NA	126,076	29.9
Monetary	276,482	45.6	126,076	45.6
Imputed	144,475	NS	0	0
Rents and royalties	10,673	NA	6,589	61.7
Monetary	26,356	25.0	6,589	25.0
Imputed	-15,683	NS	0	0

NA = Not applicable; item is calculated as a total of subgroups.
NS = Not spendable.
[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 payments.
[4]Allocated by the elderly's 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 income maintenance receipts.
[7]Allocated by the number of elderly households as a percentage of total households.
[8]Includes Federal fellowship payments (National Science Foundation fellowships and traineeships, subsistence payments to State maritime academy cadets, and other Federal fellowships), interest subsidies on loans for higher education, 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 Bureau of Indian Affairs payments, educational exchange payments, compensation to survivors of public safety officers, compensation to victims of crime, Alaska permanent fund dividend payments, and other special payments to individuals.
[11]Includes consumers' bad debts, personal injury payments to nonemployees, and other business transfer payments.
Sources: SIPP *(55)* and BEA *(58)*.

Appendix 3:
The Future of Social Security

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 *(63)*.[12] According to the SSA's intermediate projection, based on assumptions thought most likely to occur, the population at least 65 years of age 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 clear, however. Because a 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 a large surplus to help pay the future benefits of the "baby boomers" *(16)*. This surplus will be drawn down beginning in 2030 to pay retirees. Barring future payroll tax increases, the surplus will eventually turn into a deficit by 2051.

Aaron, Bosworth, and Burtless estimate that payroll taxes need to be raised an additional 6.9 percentage points over the next 75 years to pay for both Social Security and Medicare *(1)*. (A 2.4-percentage-point rise is for Social Security and a 4.5-percentage-point rise is for Medicare.) Without strong economic growth, the increase could impose substantial tax burdens on future employees and employers.

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 age 20-64 years to people at least age 65 years declines from about 5:1 in 1986 to 2.5:1 in 2033, where it stabilizes for decades *(63)*.

In the meantime, the retirement and disability trust fund has grown more rapidly than anticipated, due to a strong economy *(46)*. There are three ways to handle the surplus *(1, 2)*:

- Let the funds accumulate on paper, but borrow from them to cover deficits in the rest of the budget;

- Stop the surplus from accumulating by cutting the payroll tax that provides income for the fund; or

- Allow the funds to accumulate and balance the rest of the budget with higher taxes or decreased spending.

Until recently, the first course of action was being followed, using the surplus to offset budget deficits in the rest of the Federal budget. Some argue that when this course is followed, "...the trust fund more accurately represents a stack of IOUs to be presented to future generations for payment, rather than a buildup of resources to fund future benefits" *(16)*.

Senator Daniel P. Moynihan (Democrat, NY) recently suggested following the second option. He proposed cutting the payroll tax and funding the program on a pay-as-you-go basis *(12)*. He made this proposal to prevent using the regressive payroll tax to fund Government operations.

Aaron, Bosworth, and Burtless argue that the third course of action is the most desirable *(1)*. A financial reserve results when the trust fund surplus is allowed to grow while the rest of the budget is balanced. The reserve then can be used to increase national savings and capital formation. The resulting increases in productivity would help future workers provide benefits, goods, and services for future retirees. In effect, the trust fund surplus provides an opportunity to increase the Nation's low savings rate. In late 1990, the Federal Government enacted legislation excluding Social Security trust fund receipts and expenditures from Federal budget deficit calculations *(52)*. In other words, the Nation will follow the third option by trying to balance the Federal budget without counting Social Security payroll taxes as revenue.

Finding ways to save the surplus and invest it productively is a difficult task with implications for the Nation's future economic growth *(35)* and for future retirees. How the trust fund surplus is handled especially could affect the economic future of nonmetro areas that rely on the elderly's income. The status of the retirement and disability surplus will not become critical until the 2030's, when the surplus will begin to decline. Ignoring

[12] The projections developed by the SSA differ from those published by the Census Bureau. Census Bureau projections include only the U.S. population and Armed Forces serving abroad. The SSA projections include additional populations covered by the Social Security Program: Puerto Rico, Guam, American Samoa, the Virgin Islands, and other citizens living outside the United States. The SSA assumptions also differ from the Census Bureau's. Census Bureau projections are not presented in this appendix because the SSA uses its own projections to assess the future of the Social Security Program.

trust fund problems now because they will not become severe for years may be considered rather short-sighted by future workers.

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 understanding the implications of specific demographic and economic assumptions *(1)*.

ERS-NASS Video Tapes

ERS: Economic Research for American Agriculture

An historical account of the role of economic research in the success of American agriculture.

16 1/2 minutes.
Order No. VT001 $15.00

Today and Tomorrow

The U.S. Department of Agriculture's Outlook program analyzes the current situation for U.S. and world crops, and provides a forecast of future supplies and prices. "Today and Tomorrow" is an overview of the USDA Outlook program from its beginning in the 1920's, to the current comprehensive program of research and analysis.

23 minutes.
Order No. VT002 $15.00

The Need To Know

Begins with a futuristic "what if?" opening, and then proceeds to outline the history, significance, and contributions of agricultural statistics and USDA's National Agricultural Statistics Service.

23 minutes.
Order No. VT003 $15.00

Your Hometown

"Your Hometown" is an informative and entertaining look at small town rural America. Originally seen on public television stations nationwide, and narrated by James Whitmore, the program focuses on three rural communities where citizens use innovative thinking and teamwork to revitalize their own towns.

1 hour.
Order No. VT004 $15.00

Alternative Agriculture: Growing Concerns

Can U.S. farmers produce at a profit while practicing low-iriput, sustainable agriculture (LISA)? "Growing Concerns" investigates the benefits and drawbacks of LISA. An excellent overview, this documentary was originally seen as a five-part series on national television.

19 minutes.
Order No. VT005 $15.00

Ethanol: Economic and Policy Tradeoffs

Ethanol can contribute to the national goals of energy security, a clean environment, and a healthy economy, but there are tradeoffs.

25 minutes.
Order No. VT006 $15.00

To order, call toll free, 1-800-999-6779
(8:30-5:00 ET in the U.S. and Canada)
or write : ERS-NASS, P.O. Box 1608,
Rockville, MD 20849-1608

* U.S. G.P.O.:1991-281-091:40011/ERS

Now it's easy to order ERS reports!

Order ERS monographs and periodicals with one toll-free phone call. Our courteous staff can help you get the information you need, quickly and efficiently. Your order will be filled fast, and items will be sent by first class mail.

Call 1-800-999-6779

(in the United States and Canada; other areas please call 301-725-7937)

When you call, ask to be put on our **free** mailing list to receive ***Reports,*** a quarterly catalog describing the latest ERS research reports, electronic databases, and videos. It will help you keep up-to-date in the economics of food, farms, the rural economy, foreign trade, and the environment.

Or write to: ERS-NASS
P.O. Box 1608
Rockville, MD
20849-1608