

# Economic and Fiscal Impact of In-Migrating Retirees on Arkansas' Economy – 1998

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The retirement industry is gaining recognition nationwide due to a "ballooning" of the U.S. retirement-age population in recent years. Attention is focusing on the economic, fiscal and social impacts of retirees on communities and local and state economies. Studies (Miller, 1993a; Voth, 1993) have shown positive local economic impacts associated with the in-migration of retirees to Arkansas. A study by Miller and Hy (1998) indicates that in-migrating retirees also make a positive contribution to the state's economy.

In-migrating retirees make substantial contributions to the local community and to the state. As an industry, their contributions to the state's economy are numerous, including the following:

- New jobs are created to meet the demand for goods and services of the new residents.
- Some retiree households construct new homes, creating additional jobs and income.
- Retirees stabilize the business cycle because most retiree income is not cyclical.
- Retirees increase local and state tax revenue.
- Retirees enhance the local property tax base.
- Retiree investments increase the capital pool.
- Retirees provide an experienced pool of talent and committed volunteers.

- Retirees are a clean industry.
- Retirees diversify the economy.

In-migrating retirees can be considered an industry in the sense that retirees receive most of their income from sources outside Arkansas and purchase goods and services in the state. Most of their income comes from social security, pensions and earnings on investments. This is similar to an industry that receives payment for goods and services it sells outside the state. The private sector benefits from selling goods and services to the in-migrants, and retiree spending initiates multiplier effects that benefit the local and state economies.

## Source of Income

To generate economic benefits from the retirement industry, retiree income must originate outside of Arkansas and be spent locally. If a retiree receives most of his/her income from working at a local business, then the source of the economic benefits is the business, not the retiree. Most income of in-migrating retirees comes from sources outside the state, not from wages and salaries. The national Consumer Expenditure Survey, 1992-93, indicates that on average just 19 percent of the income of people age 65+ comes from wages and salaries.

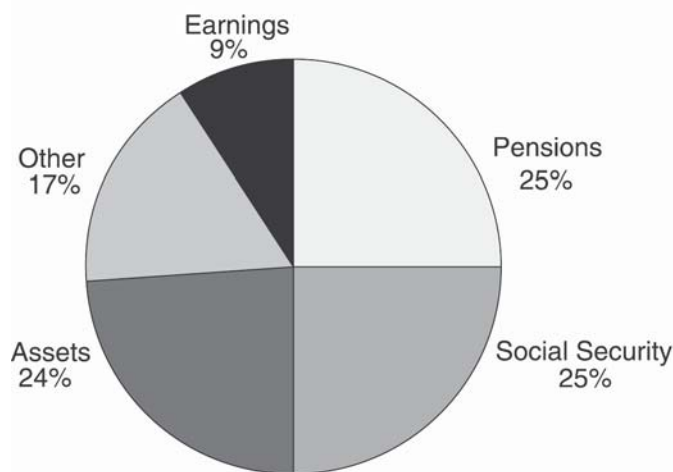
Arkansas' in-migrating retirees earn a smaller portion of their income than retirees nationally. The Miller et al. study (1994) found that in-migrating retirees to Arkansas

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obtained only 9 percent of their income from wages and salaries. In-migrating retirees to Arkansas (Figure 1) received a larger percentage of their income from interest, dividends, rent and property income than retirees who participated in the national expenditure survey. Therefore, most income of Arkansas' in-migrating retirees is derived from sources outside the state.

**Figure 1. Source of Arkansas In-Migrant Retiree Income**



**Source:** *Retirement In-Migration Study*, Miller et al., 1994.

Retiree in-migrants also pay state and local taxes that increase public sector revenues. Previous studies have shown that retired in-migrants pay more local taxes than the average resident because they own higher-value homes and purchase more of their goods and services locally (Miller et al., 1994).

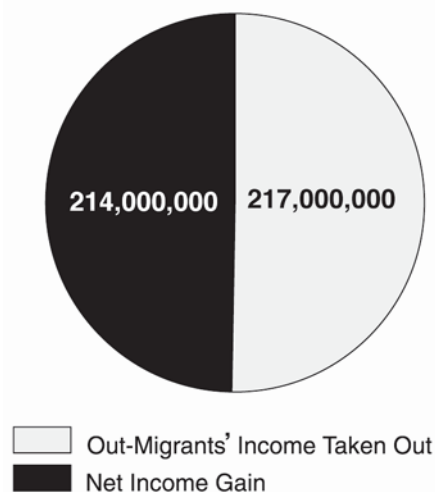
### Retiree Household Income

Total household income of retirees 60+ years who migrate to Arkansas in a typical year is nearly \$90 million.<sup>1</sup> However, in addition to in-migration, some retirees leave the state and take their income with them. Arkansas ranked ninth in the nation in net income transferred to the state from 1985 to 1990 (Longino, 1995). During this period, Arkansas received a net income transfer of more than \$214 million (Figure 2) from people 60+ years migrating in and out of the state.

Income varies greatly among retiree households, as it does for the general population. However, retirees who relocate to another state after retirement generally have higher incomes than the average retiree. Longino (1995) found that about 11 percent of in-migrating retirees to Arkansas from 1985 to 1990 had annual incomes over \$50,000. A 1992 study (Miller et al., 1994) of in-migrating retirees in three Arkansas counties found 18 percent of the households

had incomes of \$50,000 or greater. On average, in-migrating retirees have higher incomes than residents of communities where they relocate. Of course, this is not coincidental because communities strive to attract retirees with high incomes who will purchase more goods and services locally.

**Figure 2. Total and Net In-Migrant Income Impact on Arkansas (1985 to 1990)**



**Source:** *Retirement Migration in America*, Longino, 1995.

The income level of in-migrating retiree households from the 1992 study averaged \$37,450, which is equivalent to \$44,132 in 1997 dollars. In Arkansas, the average household income in 1997 was \$34,153. The average household income of Arkansas' in-migrating retirees is twice the average income of \$20,241 for all retiree households reported in the national Consumer Expenditure Survey, 1992-93 (1995).

### Economic Impact

The economic impact of retirees on the Arkansas economy is presented in three components: in-state new home construction, in-state retiree expenditures on goods and services and in-state Medicare spending for health care services of those 65 and older.

#### New Home Construction

Many in-migrating retirees construct new homes in Arkansas, which generates jobs and income for Arkansans. Figures from the American Housing Survey (1995) indicate that about 20 percent of elderly households who migrate to a new state construct a new home. If we assume that 20 percent of the estimated 6,793 elderly households who annually move to Arkansas build a new home, then 1,350 new homes are constructed in our year of analysis.

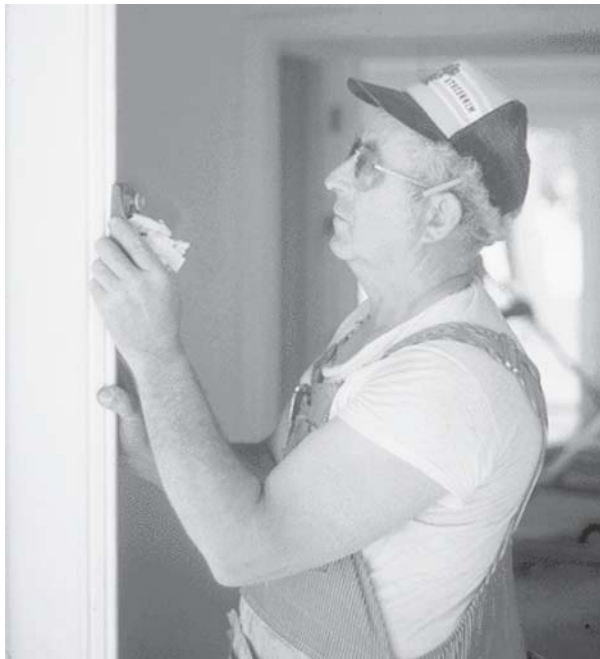
The average cost of constructing a single-family dwelling in Arkansas in January 1996 was \$86,000. Taking inflation into account and considering that in-migrating households own homes valued above the average home value (Miller et al., 1994), we estimate an average construction price of \$100,000. Therefore, elderly in-migrants spent an estimated \$135 million constructing new homes in 1997 in Arkansas.

Construction of residential homes provides a one-time impact on the Arkansas economy. Assuming that Arkansas continues to receive an annual influx of retirees and some of them continue to build new homes, the economic impact of new home construction would occur annually. Spending \$135 million on the construction of new homes by retirees would generate an additional \$100 million in sales by other firms that supply goods and services to the construction industry and by businesses that sell goods and services to people employed as a result of the construction industry.

### **1,350 New Homes = 3,185 Jobs**

Constructing these 1,350 new homes would generate an estimated 3,185 jobs. Most of these jobs (54 percent) are in the construction industry. Other Arkansas firms and businesses, like the lumber and sawmill industries, also benefit significantly from new home construction. The wages these workers spend in Arkansas generate the “induced” impact.

The total value added, including multiplier effects, to the Arkansas economy by this construction activity is more than \$89 million each year.



### **1,350 New Homes = \$89 Million Value Added**

Since we estimate that 6,793 retiree households moved to Arkansas in one year, we can estimate the economic impact of new home construction for an average retiree household. For every new retiree household moving to Arkansas, it is estimated that a one-time impact of one-half of a job is created and \$13,000 of value is added to the Arkansas economy.

### **Retiree Spending**

One of the greatest economic impacts of in-migrating retirees is the result of their purchase of goods and services from local businesses. After a retiree relocates to Arkansas, she/he will purchase goods and services from local vendors. This spending creates a significant impact on local and state economies each year, continuing until the retiree either leaves Arkansas or dies. However, it should be noted that spending declines as retirees age.



### **Retirees Spend \$204 Million = 3,343 Jobs and \$127 Million Value Added**

Using retiree household expenditure patterns obtained from a survey of retiree households in Arkansas (Miller et al., 1994) and average retiree expenditures reported in the Consumer Expenditure Survey, 1992-93 (Bureau of Labor Statistics, 1995), we estimate that the average retiree household will spend \$30,052 annually on goods and services in Arkansas. Multiplying this by the 6,793 retiree households in-migrating to Arkansas annually yields a total expenditure of \$204,143,240. Including multiplier effects, this spending generates 3,343 jobs, \$74.5 million in additional income and adds nearly \$127 million in value added to the Arkansas economy.



## Medicare Spending

In-migrating retirees 65 years of age and older also bring additional dollars to the state in the form of Medicare payments to Arkansas hospitals, physicians and other health care providers. In 1996, the federal government provided nearly \$1.7 billion in Medicare payments to Arkansas health care providers. This is an average of \$4,569 per person age 65+. Of in-migrating retirees, an estimated 7,271 are eligible for Medicare. These in-migrating retirees generate a total inflow of \$33.2 million annually for Arkansas' economy. Although these figures probably overestimate the Medicare dollars spent on new in-migrant retirees, they represent the overall average given to health care providers. In-migrating retirees tend to be younger than the average retired person and tend to be healthier and thus require less medical care than those considered to be the old elderly. Therefore, using the average Medicare expenditure overestimates the economic impact for the healthy and underestimates it for people in need of greater health care.

### Medicare Revenue of \$33 Million = 375 Jobs and \$14 Million Value Added

This increased spending in Arkansas by the federal government creates jobs that otherwise would not exist, and it increases income and the size of the Arkansas economy. The spending creates 534 jobs and adds \$17.8 million in personal income or nearly \$18.7 million in value added to health care industries in Arkansas. These are the direct effects on the health care industry. There are also indirect and induced effects as a result of this initial spending of \$29,575,137. Through multiplier effects, the initial spending generates another 375 jobs and adds \$14.3 million to the Arkansas economy through the indirect and induced effects.

### Total Economic Impact – First Year

If we include new home construction expenditures with household consumption and Medicare spending, we obtain the economic contribution of in-migrating retirees during their first year in the state. The combined direct, indirect and induced impacts of 6,793 new retiree households in Arkansas result in 7,550 new jobs and \$253 million in additional value added to the state economy. This is equivalent to about 1.1 jobs and \$37,282 of value added to the Arkansas economy in the first year for every retiree household moving to the state.

### Year Two Impacts

During the second and every year thereafter, as long as the retiree in-migrants reside in Arkansas, the economic impact they generate will be less than the first year, since they are unlikely to build another

new home. The second-year economic impacts are generated from the purchase of goods and services from local businesses by retiree households and from the Medicare dollars spent on their behalf by the federal government. As a result of retiree purchases of goods and services and Medicare spending for retirees, on average one retiree household will generate about six-tenths of a job, providing \$15,300 in income and adding \$24,124 of value to the Arkansas economy. The total impact of these retiree households is approximately 58 percent of their first-year impact.

## Net Economic Impacts

The above analysis estimates the economic impact of all in-migrating retirees on the Arkansas economy. The net effect of migrating retirees is much less than shown in the previous sections because many retirement-age people move out of state. Therefore, Arkansas gains revenue from in-migrating and loses revenue from out-migrating retirees. The estimated net retirement-age in-migration in the early 1990s is 2,300 persons or 1,386 households. This means that there are 2,300 more retirement-age people who moved to Arkansas than left the state during a typical year. Therefore, the net economic impact would be about 20 percent of the estimated gross impact stated above.



## Fiscal Impact

### Revenue Impact

As noted in earlier sections, in-migrating retirees have a higher average household income than existing households and, thus, have more money to spend. It follows that in-migrating retirees pay more to the state in taxes than the state spends on them, making the attraction of in-migrating retirees a financially sound industry the state should foster.

Based on a survey of in-migrating retirees conducted by Miller and his colleagues for the Southern Rural Development Center (1994), the

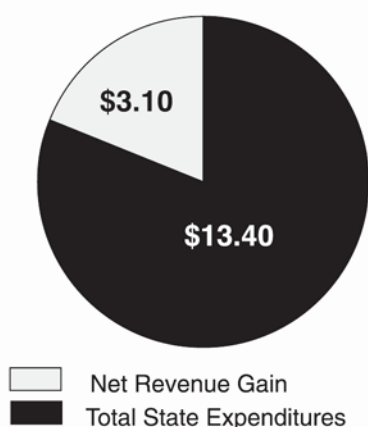
average household income of in-migrating retirees is approximately \$44,132<sup>2</sup>, well above Arkansas' estimated 1997 average household income of \$34,153. Although survey participants were not selected randomly, they were chosen to represent diverse segments of the in-migrating retiree population in Arkansas.

### Net Revenue Impact

On average 11,323 retirees, comprising 6,793 households, move into the state each year. Assuming that their average income is \$44,132, they would generate an estimated \$16.5 million in state revenues.

The state spends some of its revenues on these retirees, as it does on other residents. However, only a very small portion of the state's expenditures for education and youth services are spent on in-migrating retirees. In 1997, 64.5 percent of general net available revenues were spent on elementary and secondary schools, schools for the deaf and blind, vocational-technical schools, higher education, the state Department of Education and the state library. In-migrating retirees receive little direct benefit from education and youth expenditures, although they admittedly secure some indirect benefits from a more educated population and amenities and lifestyle provided by educational institutions throughout the state. Thus, expenditures for education and youth programs are excluded when calculating the cost of in-migrating retirees to the state.

**Figure 3. Total Expenditures for and Net Revenue Gain from In-Migrating Retirees (in millions)**



**Source:** Miller, Wayne P., and Ronald J. Hy. 1998. *Economic and Fiscal Impact of In-Migrating Retirees on Arkansas' Economy*, University of Arkansas Cooperative Extension Service, Little Rock, Arkansas. December 1998.

Assuming that the state's education and youth expenditures are not spent on in-migrating retirees, each year the state receives \$16.5 million from in-migrating retirees and spends \$13.4 million on

in-migrating retirees. The net gain to the state is \$3.1 million or \$461 per household.

### Personal Income Tax Revenue<sup>3</sup>

According to the 1993 survey conducted by Miller et al., the average in-migrating retiree household earning \$44,132 probably receives no more than 25 percent of its income from social security payments, which are not taxable income. The rest of the household income is subject to income tax. However, the first \$6,000 of taxable retirement income is exempt from state income taxes. It is assumed that a typical in-migrating retiree household would only claim one \$6,000 exemption, since most spouses probably do not earn enough pension income to be eligible for the additional \$6,000 exemption.



### Sales and Use Tax Revenue

Sales and use taxes for in-migrating retirees were estimated based on the U.S. Department of Labor's Consumer Expenditure Survey, 1992-93, published in September 1995, the latest such data available. The Consumer Expenditure Survey, conducted by the U.S. Bureau of Labor Statistics, is a compilation of spending patterns and living costs of American consumers. The survey provides the most complete and accurate accounting of expenditure data available. The sales and use taxes were computed for in-migrating retirees earning \$44,132 before taxes and assume the purchasing patterns of in-migrating retirees are similar across the country.

The Consumer Expenditure Survey does, however, indicate that spending patterns differ by age. Consequently, separate estimates were computed for in-migrating retirees aged 54 to 64 and 65 and over. (Upon completion of the calculations, data were converted to 1997 dollars using the most recent Consumer Price Index.<sup>4</sup>)

## Motor Fuels and Cigarette Tax Revenue

Motor fuel and cigarette taxes for in-migrating retirees were also estimated from the U.S. Department of Labor's Consumer Expenditure Survey, 1992-93. The average price of a gallon of gasoline was assumed to be \$1.10 per gallon and subject to 18.5 cents a gallon state tax. The average price of a pack of cigarettes was estimated at \$1.62 and taxed at 21 cents per pack.

## Summary

Arkansas has attracted retirees to the state for decades. Arkansas has benefited from in-migrating retirees who bring with them their time, talents and expertise. They also bring income from pensions, investments and social security, some of which they spend in Arkansas. This spending creates additional

jobs and income for Arkansas residents. Retirees also add to local and state government revenues and, on average, contribute more than the cost of services provided to them.

## End Notes

<sup>1</sup>Longino, Charles F. 1995. *Retirement Migration in America*. Houston, Texas: Vacation Publications, Inc.

<sup>2</sup>Miller, Wayne, et al. 1994. *Retirement In-Migration Study: Attractive Features, Economic and Social Impacts*. Mississippi State, Mississippi: Southern Rural Development Center.

<sup>3</sup>Ibid.

<sup>4</sup>U.S. Department of Labor. 1995. Consumer Expenditure Survey, 1992-93. Washington, D.C.: U.S. Department of Labor.

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