

**THE SURVEY OF INCOME AND
PROGRAM PARTICIPATION**

**THE ELDERLY AND THEIR SOURCES
OF INCOME: IMPLICATIONS FOR
RURAL DEVELOPMENT**

No. 110

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U.S. Department of Commerce U.S. CENSUS BUREAU

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PARTICIPATION**

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SUMMARY

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

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

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

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

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

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

Not all property income goes to elderly people of modest means who are drawing interest to use in their retirement. Some of it also goes to people of all ages in the upper income brackets who have accumulated property. Over time, a more unequal income distribution could develop in those nonmetro areas with a heavy dependence upon property income.

Finally, about a third of the income of the elderly comes from Social Security and in nonmetro areas the fraction is even higher, about two-fifths. Thus, the future of the Social Security program is critically important to rural areas dependent on retirement income from either migrating or native elderly. Anyone devising development strategies based on the income of the elderly must recognize the importance of Social Security's financial status, now and in the future.

INTRODUCTION AND BACKGROUND

Some rural development specialists have suggested that property income (dividends, interest, and rent) and government transfer payments¹ can be developed as an economic base for local economies (Shaffer, 1981; Bain, 1982a and 1982b; Hirschl and Summers, 1982; Summers and Hirschl, 1985a and 1985b; Pulver, 1986; Schneider, 1987; Smith et al., 1987, Schneider and Green, 1989). They often note that retirees, or the elderly, receive a disproportionate amount of these unearned² sources of income. Thus, efforts of local areas to attract retirees or to provide places for local elderly to shop can provide a relatively stable source of income for local businesses. This development strategy, and the reasoning behind it, was aptly summarized by Glen C. Pulver:

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

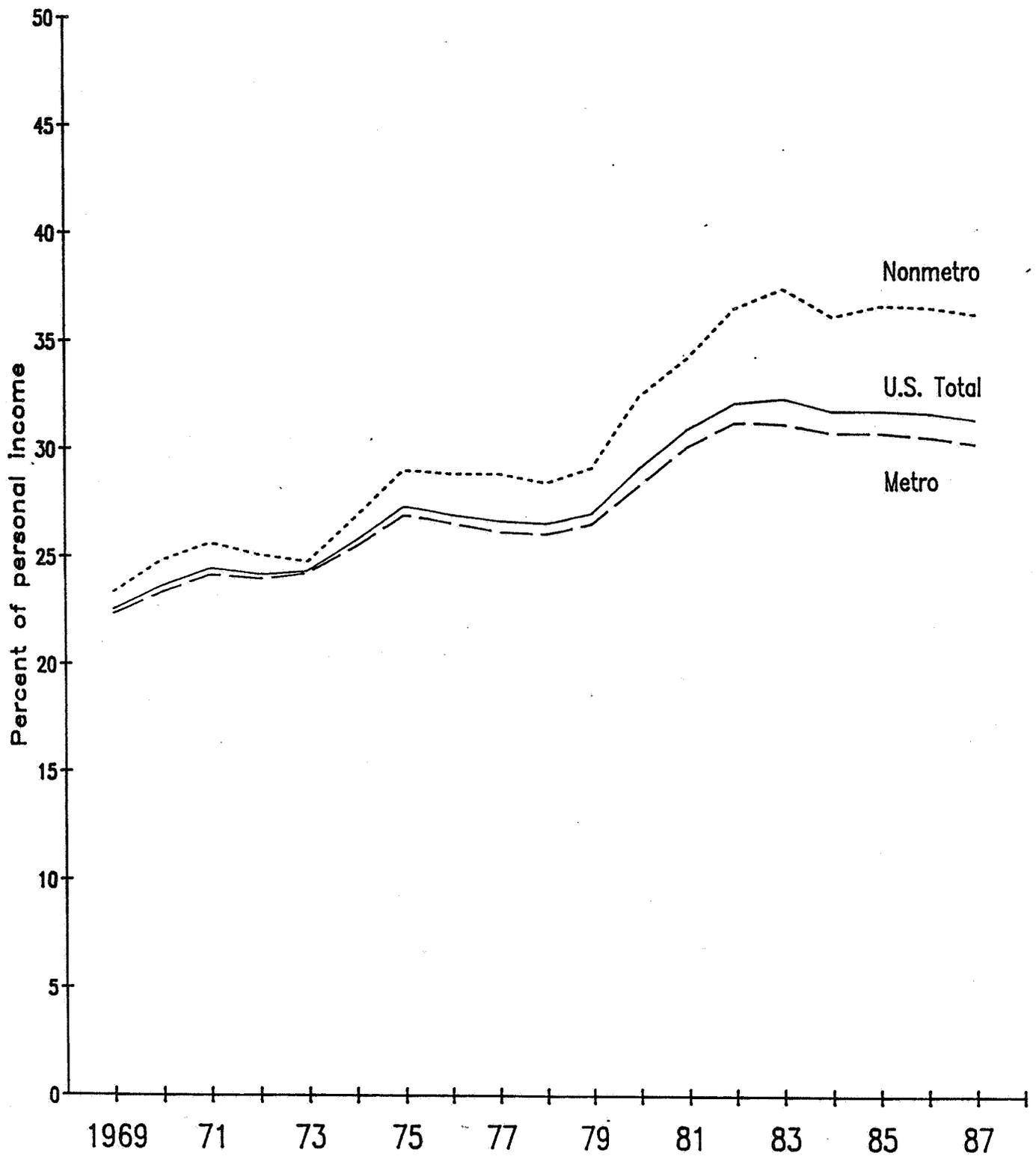
Most rural development specialists investigating this topic note the growing importance of unearned income (especially transfers) to rural or nonmetro areas,³ often citing data from the Commerce Department's Bureau of Economic Analysis (BEA) shown in figure 1. They then state that a large share of this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

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

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

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

Figure 1. Unearned income is an increasing share of total personal income in the U.S.



Note: Unearned income consists of transfer payments and property income.

Source: BEA (U.S. Department of Commerce, 1989).

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

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

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

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

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

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

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

- o What are the income levels among the U.S. elderly?

This question is particularly important to nonmetro areas with immigration of the elderly. It is obviously better to attract the high-income elderly, who have more money to spend. How many high-income elderly are there?

- o What are the sources and levels of income among the nonmetro elderly?

For nonmetro areas that are unable to attract migrating, well-to-do elderly, understanding the income of the elderly already in place is important. For example, if the nonmetro elderly depend on different government programs than the elderly in general, nonmetro areas will want to follow proposed legislative changes in these programs.

- o How large a share of various sources of income 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, and 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.

The answers to these questions have implications for rural economic development that will be discussed later in the conclusion.⁵

DATA SOURCES AND DEFINITIONS

The first three questions can easily be answered, given a suitable data base. Fortunately, a new survey, the Survey of Income and Program Participation (SIPP), provides sufficiently detailed data to answer these questions. 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

⁵Note that the primary focus of this report is understanding the elderly's sources of income that could form an economic base for rural development. It does not analyze levels and sources of income of the elderly by race, Spanish 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 (1988b).

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

BEA Local Area Personal Income Series

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

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

Survey of Income and Program Participation⁶

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

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

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

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

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

The Census Bureau has 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 the research file is the SIPP data source used in this report. The 12 months covered vary from rotation group to rotation group 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 used in SIPP. The research file uses the metro-nonmetro designations used in the 1980 Census.

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

Defining the Elderly

The most common definition of the elderly is all persons 65 years old and over, the traditional retirement age. Otto von Bismark, the German Empire's "Iron Chancellor," is generally credited with selecting 65 as the minimum retirement age in the 1880s. Actually, he picked 70. Germany later lowered the age to 65 during World War I. Benefits were generous, but life was short, so Germany's retirement program cost little (Thurow, 1985, p. 251-252). Because this cut-off was established generations ago by a central European empire that no longer exists, it may not be particularly relevant today.

Another approach would be to use a range of definitions. Two Census Bureau publications (Taeuber, 1983; Siegel and Davidson, 1984) used four definitions:

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

Some characteristics vary by age among the older population. Poverty, for example, increases sharply with age (Taeuber, 1983, p. 11).

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, and 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 (Rones, 1985). This procedure, however, excludes those at least 65 years old who continue to work. About 17 percent of the

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

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

Unit of Observation

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

RESULTS

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

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

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

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

No significance tests were performed for BEA-based estimates. Because BEA unearned income data are based largely on administrative records and not a sample survey, statistical significance tests are not needed. Similarly, significance tests are 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

Generally speaking, the percentage distribution of income by source was similar in metro and nonmetro areas (table 1). In other words, the metro and nonmetro elderly received roughly about the same share of their income from each source. As expected, however, per household income was higher in metro than nonmetro areas.¹¹ Most of the per household amounts for individual items (with some exceptions) were higher in metro than nonmetro areas, although the differences were not always significant.

About one-fifth of the income of the elderly came from earnings in both metro and nonmetro areas. Some elderly continue to work part- or full-time. Some of the earnings represents 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, may also work.

Property contributed about one-quarter of the elderly's income in both metro and nonmetro areas. Most of the elderly's property income came from interest, and their largest source of interest was savings institutions--banks, saving and loan associations, and credit unions (table 2). The elderly's preference for interest from savings institutions is understandable. These institutions are well-known, provide regular interest payments, and Federal agencies insure up to \$100,000 of each depositor's account against loss.

As one would expect, much of the elderly's income came from government transfer programs (table 1). These programs provided 53 percent of the elderly's income in nonmetro areas and 46 percent in metro areas. Social Security alone paid 40 percent of the elderly's income in nonmetro areas and almost 35 percent in metro areas. In other words, the elderly depended heavily on government transfer programs, but the dependence was slightly more in nonmetro than metro areas.

Private retirement, in contrast, was a relatively minor component of the elderly's income in both metro and nonmetro areas. Four factors help explain why private retirement plans pay such a

¹¹In general, income levels are lower in nonmetro than in metro areas, and the gap has widened in recent years (Hoppe, 1987; Hoppe and Bellamy, 1989).

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

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

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

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

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

1/ Includes miscellaneous items not shown separately.

2/ Includes unemployment insurance not shown separately.

3/ Includes Railroad Retirement, military retirement, workers' compensation, State temporary disability payments, and Black Lung payments not shown separately.

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

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

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

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

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

Item	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
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 & 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

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

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

Note: Items may not add to totals due to rounding. Also, the U.S. total includes a few cases that could not be assigned a metro or nonmetro residence.

1/ Includes interest from savings accounts, money market deposit accounts, CD's, 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 (U.S. Census Bureau, 1987).

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

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

Income Levels Among the Elderly

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

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

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

Table 3. The elderly and nonelderly sorted by the ratio of family income to the poverty level, by residence, 1983-84

Item	Metro				Nonmetro			
	Elderly				Elderly			
	Non-elderly	Total	Young old 1/	Old old 2/	Non-elderly	Total	Young old 1/	Old old 2/
	:	:	:	:	:	:	:	:
	---Thousands---				---Thousands---			
Number of people	151,838	18,552	11,257	7,295	50,106	7,765	4,811	2,954
People sorted by the ratio of family income to the poverty level:								
Less than 1	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
	---Percent---				---Percent---			
Percentage distribution by the ratio of family income to the poverty level:								
Less than 1	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 **

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

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

Note: Items may not sum to total due to rounding.

1/ The "young old" are 65 to 74 years old.

2/ The "old old" are 75 years old and older.

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

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

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

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

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

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

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

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

Table 4. Multiples of the poverty level for an elderly individual and for an elderly couple, 1983

Item	: One person, : 65 years old : and over :	Couple, householder 65 years old and over
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: U.S. Census Bureau, 1985, p. 179.

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

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

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

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

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

The potential economic gain has lead States

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

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

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

recognize that competing for elderly migrants has become more difficult for rural areas (Schneider, 1987).

The Elderly's Share

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 property and transfer income. As mentioned earlier, people other than the elderly can receive property income, and 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 designed primarily to serve them as elderly persons. For example, both poor elderly and poor nonelderly may receive Food Stamps.

SIPP Income

The elderly's share of selected sources of income, based on SIPP data from the 1983-84 longitudinal research file, will be examined next. Later, the elderly's share of the unearned income recorded by BEA will be imputed.

Earnings. As one would expect, elderly households received a small portion of total earned income in both metro and nonmetro areas (table 5).

Retirement and Related Programs. In contrast, 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 from program to program. Social Security distributed the highest share to the elderly, about three-quarters of all benefits in both metro and nonmetro areas. The remaining benefits support the disabled and their dependents, survivors of deceased workers, and people who retired before age 65.

The lowest share of retirement program benefits received by the elderly was for military retirement, 23 percent at the national level (not shown in table 5).¹⁴ 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 (Arguden, 1988, p. 529).

¹⁴Military retirement was not shown in the tables because it has too few nonmetro recipient households to constitute an adequate sample for analysis.

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

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

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

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

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

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.

In selecting a place to live, job availability may be more important to the relatively young military retirees than amenities or a low cost of living.

Other Government Programs. The larger share of income maintenance going to the elderly in nonmetro areas reflects the nonmetro elderly's higher poverty rate. A larger share of SSI, which makes up the bulk of the elderly's income maintenance, also went to the elderly in nonmetro areas. Note that the percentage of the elderly's income from income maintenance and SSI was also higher in nonmetro areas (table 1).

Private Retirement. The share of private retirement going to the elderly seems low in both metro and nonmetro areas (table 5). This may reflect a trend towards reduced retirement ages among private pension plans, which would decrease the share going to those at least 65 years old by increasing the share going to younger retirees. A recent Bureau of Labor Statistics (BLS) survey found that many plans reduced their normal retirement age to less than age 65 between 1974 and 1983 (Bell and Marclay, 1987). 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 1974.¹⁵

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 rent than the metro elderly.

Total Unearned Income. Finally, the elderly's share of all unearned income can now be estimated. They controlled about 52 percent of all transfers, 40 percent of all property income, or about 48 percent of total unearned income, as recorded by 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. The metro-nonmetro difference in the elderly's share of total unearned income was not statistically significant, however.

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

¹⁵Although the plans examined do not form a representative sample, they do cover a large number of workers and illustrate changing retirement provisions (Bell and Marclay, 1987, p. 18).

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

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

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

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

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

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

examined here. And, the elderly control about two-fifths of this amount.

Nevertheless, the elderly do not control the other three-fifths. Efforts to attract the migrating elderly or to provide places where local elderly can buy goods and services may not necessarily capture much of the local unearned income that BEA records. Even in retirement counties, a substantial share of BEA unearned income is likely to go to the nonelderly. Using unearned income reported by BEA as an indicator of the amount of income controlled by the elderly can be misleading.¹⁷

IMPLICATIONS

Property and transfer income has grown rapidly in recent years and now forms a large share of total income, particularly in nonmetro areas (figure 1). Although the elderly formed only 21 percent of all households, they received nearly half of the income from these sources recorded by SIPP (table 5). Obviously, the elderly's unearned income can have an important impact on nonmetro areas that have attracted migrating elderly. It also can be important in nonmetro areas where the elderly form a large share of the population because of outmigration of younger people. The importance of these sources of income would have been even greater if retirees younger than 65 were considered.¹⁸ 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 substantial migration 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. Many rural areas will be able to attract the affluent elderly, but not all.

Using unearned income reported by 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 impact of the elderly's income. The elderly actually control only about 42 percent of total transfer

¹⁷The BEA data are often used for this purpose. For example, see Pulver (1986) and Summers and Hirschl (1985a).

¹⁸Note, however, that the size of the population that retires before age 65 should be exaggerated. For example, men at least 60 years old in 1989 who were not in the labor force equalled 12.4 million, which is only 2.1 percent higher than the total number of men over 65 (U.S. Department of Labor, 1990a, p. 162). Relatively few men under 60 years old appear to consider themselves retired. In the fourth quarter of 1989, only 3.3 percent of males who reported retirement as a reason for not being in the labor force were younger than age 60 (U.S. Department of labor, 1990b. p. 61).

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

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

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

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

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

Local Economic Impact

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

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

Table 6. Elderly households' share of total unearned income, transfers, and property income

Item	: 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 II-1
2/ From table 5.

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

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

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

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

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

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

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

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... (Sanford, 1988, p. 12).

Finally, not all property income goes to elderly people of modest means who are drawing interest to use in their retirement. Some of it also goes to people of all ages in the upper income brackets who have accumulated property. Over time, a more unequal income distribution could develop in those nonmetro areas with a heavy dependence upon property income (Hoppe, 1987, p. 3).

The Future of Social Security

About a third of the income of the elderly comes from Social Security (table 1), and in nonmetro areas the fraction is even higher, about two-fifths. Thus, the future of the Social Security program is critically important to rural areas dependent on retirement income from either migrating or native elderly.

Social Security benefits do not materialize mysteriously out of thin air, like manna from heaven. They come from a trust fund built up through payroll taxes. Areas that decide to pursue 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 up a large surplus to help pay for the future benefits of "baby boomers" (Hambor, 1987). Eventually, this surplus will be drawn down to pay retirees starting in 2030 and, barring future payroll tax increases, will turn into a deficit by 2051.²²

Over the next 75 years, Aaron et al. (1989, p. 123) estimate that payroll taxes need to be raised an additional 6.9 percentage points to pay for both Social Security and Medicare. A 6.9 percentage point increase over 75 years may seem acceptable. However, this represents a 45 percent rise in the 15.3 percentage point rate currently paid by employees and employers to support

(Sanford, 1988, p. 2).

²²For a more detailed discussion of the future of Social Security and the relationship between the program and the economy, see Appendix III.

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

Beyond the Elderly

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

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

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

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

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

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

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. But remember that 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 monitor these income sources, now and in the future. Property and transfer income of the elderly is not a rural development panacea in either the short or the long run.

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**APPENDIX I:
UNDERREPORTING IN THE SIPP**

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

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

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

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

Appendix table I-1. Comparisons of SIPP and BEA totals for selected sources of income, 1983-84

Item	SIPP amount	BEA amount 1/	SIPP as pct. of BEA
	--Million dollars--		Pct.
Social Security	148,949	169,071	88.1
Railroad retirement	5,540	6,040	91.7
Federal civ. ret.	19,239	21,679	88.7
Military retirement	15,577	15,772	98.8
State and local govt. retirement	16,706	22,702	73.6
Supplemental Sec. Inc.	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
GI Bill educational 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 used in Coder et al. (1987, p. 5).

2/ Includes only the monetary portion of interest.

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

**APPENDIX II:
ALLOCATING BEA UNEARNED INCOME**

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

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

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

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

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

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 (U.S. Department of Commerce, 1988a, p. xvi).

In 1987, approximately 61 percent of total imputed interest income consisted of income withheld by life insurance companies and pension funds (U.S. Department of Commerce, 1988b, p. 101). The remaining 39 percent was the value of services, such as check clearing, provided free of charge by depository institutions.

Excluding imputed interest from allocation may seem rather arbitrary, because other noncash items, such as Food Stamps, are allocated. However, imputed interest is quite different from other 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.

In contrast, the relationship between local spending and the large portion of imputed interest withheld by life insurance companies and pension funds is more tenuous. For example, people covered by uninsured pension plans benefit from the plans' earnings. However, these earnings do not go to them in a form that they can currently spend. The earnings are withheld in the plans in their behalf and have 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.

However, this portion of imputed interest is actually calculated as the income depository institutions earn on the deposits entrusted to them minus the monetary interest paid on the deposits (U.S. Department of Commerce, 1986, p. 18). This residual is not calculated at the local level, but allocated from the national level to each county in proportion to the cash interest received by persons in the county (U.S. Department of Commerce, 1988b, p. xvii). It is difficult to see the connection

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

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

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

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

Item	: Total : amount	: Elderly's : share : of spendable : items 1/	: Elderly's : spendable : amount	: Elderly's : share of total : unearned income, : transfers, & : property income
	: Million : dollars	: Percent	: Million : dollars	: Percent
Total unearned income	: 954,808	: N.A.	: 397,804	: 41.7
Total transfer payments	: 450,776	: N.A.	: 237,627	: 52.7
Government transfer payments to individuals	: 424,979	: N.A.	: 234,813	
Retirement and related programs	: 242,169	: N.A.	: 162,742	
Social Security	: 169,071	: 75.6	: 127,817	
Railroad retirement	: 6,040	: 68.9	: 4,162	
Federal civilian employee retirement	: 21,679	: 58.9	: 12,769	
Military retirement payments	: 15,772	: 22.7	: 3,580	
State and local govt. employee ret.	: 22,702	: 58.9	: 13,372	
Other disability ins., and ret. payments 2/	: 6,905	: 15.1	: 1,043	
Medical payments 3/	: 99,032	: 61.5 4/	: 60,905	
Income maintenance	: 40,940	: N.A.	: 5,443	
SSI	: 9,927	: 39.1	: 3,882	
AFDC	: 14,531	: 2.5	: 363	
Food Stamps	: 10,852	: 7.1	: 770	
Other Income maintenance 5/	: 5,629	: 7.6 6/	: 428	
Unemployment insurance benefit payments	: 20,822	: 2.9	: 604	
Veterans' benefit payments	: 16,354	: N.A.	: 5,025	
Veterans pensions and compensation	: 13,532	: 34.9	: 4,723	
Educational assistance	: 1,363	: 0.0	: 0	
Veterans life insurance benefits	: 1,417	: 20.7 7/	: 293	
Other assistance to veterans	: 41	: 20.7 7/	: 8	
Federal education and training assistance 8/	: 5,206	: 0.0 9/	: 0	
Other payments to individuals 10/	: 457	: 20.7 7/	: 95	
Govt. and business pay. to nonprofit institutions	: 12,205	: Not spendable		
Business payments to individuals 11/	: 13,592	: 20.7 7/	: 2,814	

(Continued)

Note: Footnotes are at the end of the table on the next page

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

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

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

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

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

**APPENDIX III:
SOCIAL SECURITY AND THE FUTURE OF THE ECONOMY**

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

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

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

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

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

In the meantime, the retirement and disability trust fund has grown more rapidly than anticipated, due to a strong economy (Srodes, 1988, p. 16). There are three ways to handle the surplus (Aaron et al., 1989, p. 126; Allen, 1988, pp. C1-C2):

- o Let the funds accumulate on paper, but borrow from them to cover deficits in the rest of the budget.
- o Cut the payroll tax that provide income for the fund; the surplus will not accumulate.
- o Allow funds to accumulate and balance the rest of the budget with higher taxes or decreased spending.

We are currently following the first course of action, using the surplus to offset budget deficits in the rest of the federal budget. 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 (Hambor, 1987, p. 17)."

Senator Moynihan recently suggested following the second option. He proposed cutting the payroll tax and funding the program on a "pay-as-you-go" basis (Dentzer, 1990). His proposal would prevent using the regressive payroll tax to fund government operations.

Aaron et al. (1989, pp. 10-12, 126) argue that the third course of action is the most desirable. A financial reserve results when the trust fund surplus is allowed to grow while the rest of the budget is balanced. The reserve can then 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. President Bush recently proposed a plan to follow the third course by 1996 (Rowen, 1990).

Finding ways to save the surplus and invest it productively is a difficult task with implications for the Nation's future economic growth (Rauch, 1988) as well as future retirees. How the trust fund surplus is handled could also affect the economic future of nonmetro areas that rely on the elderly's income. Under current law, the status of the retirement and disability surplus will not become critical until the 2030s, when it will begin to be drawn down.² However, ignoring the problem now because it will not manifest itself for decades may be considered rather short-sighted in the future.

²Medicare will have financial problems much earlier (Aaron et al., 1988, pp. 48-50).

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

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

APPENDIX IV: GLOSSARY

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

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

Elderly. Anyone 65 years old and older.

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

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

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

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

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

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

Metro areas. Metro areas are 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 the nucleus. Generally speaking, metro areas have a central city or urban core of at least 50,000 residents and a total population of 100,000 or more.

Nonmetro areas. Territory outside metro areas. (See metro areas.) Nonmetro data are commonly used to represent rural and small town people.

Old old. Anyone 75 years old or older.

Personal income. Total income received by people from wages and salaries, other labor income, self-employment, property income, and transfer payments.

Poor. Belonging to a family with income less than the poverty threshold. In the computer data file used to determine poverty status in this report, each person has a variable recording the total income of his or her family for each month and a variable recording the poverty level for his or her family each month. Family membership can change from month to month, and the poverty level varies with size of family, age of family head, and number of children. The poverty level for the entire 12-month period is calculated by adding the 12 monthly poverty levels. If the sum of the 12 income amounts is less than the 12-month poverty level, the person is poor.

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 up family members' income during the previous calendar year, and compares the sum to an annual poverty threshold.

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

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. (See private retirement.)

Property income. Income from investments paid to people. Includes dividends, interest, net rental income, income from estates or trusts, and income from royalties and other investments. (See dividends, interest, rent, and royalties.)

Rent. People's income, after expenses, from renting 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 home owners would have paid to rent their housing unit, minus expenses.

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

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

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

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

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

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

Young old. Between 65 and 74 years old.