

golden rules

By Dr. Jeffrey M. Humphreys and Beata D. Kochut

The OneGeorgia Authority asked the Selig Center to answer the question: Is retiree recruitment a good strategy for economic development in rural Georgia? Our analysis shows that retiree recruitment is a viable economic development strategy for rural Georgia. We identified ten reasons why this makes sense:

1. Georgia Is a Retiree Magnet: The state-to-state migration data for 2007-2011 shows that Georgia remained very competitive in terms of attracting retirees during some very tough economic times, 15,805 retirees per year on average. In addition, many of Georgia's rural counties already do a better than average job of attracting retirees.
2. The Time Is Right: Demographic and economic trends are coming together to create an excellent opportunity for retiree-based economic development. The retirement of the baby boomers is a strong demographic trend that is virtually locked in until approximately 2028. In addition, economic recovery and improving housing markets will increase geographic mobility.
3. Advantageous Tax Structure: Georgia's tax structure is a comparative advantage in terms of attracting retirees due to its generous retirement income exclusion, sales tax exemptions for food, drugs, and medical services as well as no estate or inheritance tax.
4. Economic Impacts: It takes only 1.8 in-migrating retirees to generate one job, so 100 in-migrating retirees generate 55 jobs. The annual economic impact of a typical year's inflow of 15,805 retirees is \$941 million and 8,574 jobs.
5. Wealth Effects: The average (mean) net worth of retiree households was \$931,465 in 2011, or \$503,495 on a per capita basis.
6. Fiscal Impacts: The net impact of recruiting retirees on state and local government finances is either neutral or positive – depending upon whether or not spending on K-12 education is included.
7. Economic Diversity: Retiree-based economic development benefits service industries such as health care, home building, retailing, and household services more than manufacturing, agriculture, or government. Recruiting retirees therefore can help rural areas with economic structures focused on goods producing industries or government to diversify their economies.
8. Reduce Economic Risks: Retiree recruitment can make rural areas or small towns less vulnerable to the ups and downs of commodity markets, less dependent on the actions of a few large employers, and less exposed to global competition.
9. Promote Steady Incomes: Relative to wage and salary income many retirees have steady incomes that often are not dependent on local economic conditions.
10. Attain Critical Mass: In-migrating retirees may provide the critical mass necessary to support certain types of businesses that previously did not exist, reducing out-shopping by long-term residents.

The Time Is Right: Demographic and economic trends are coming together to create an excellent opportunity for retiree-based economic development. The retirement of the baby boomers is a strong demographic trend that is virtually locked in until approximately 2028. In addition, economic recovery and improving housing markets will increase geographic mobility.

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EVALUATING RETIREE-BASED ECONOMIC DEVELOPMENT IN GEORGIA

Is retiree recruitment a good strategy for economic development for rural counties? The Selig Center's analysis shows that it is, and identifies ten reasons why retiree-based economic development makes sense. County-level retiree attraction indices help determine which counties are retiree magnets and which are not. The Selig Center provides policy recommendations and insights to economic developers operating in Georgia and other states. The Selig Center for Economic Growth was created by the University of Georgia's Terry College of Business to convey economic expertise to Georgia businesses and entrepreneurs. This study was commissioned by the OneGeorgia Authority, which was created by the State of Georgia to enhance rural development.

The Selig Center recommends retiree-based economic development as a good way to grow and diversify Georgia's rural economy. We recommend a deliberate rather than passive approach to recruit amenity-seeking retirees as well as to retain those who already live here. This should include aggressive marketing of the specific local attributes that attract retirees. For example, amenity-seeking retirees are frequently drawn to the same places that attract tourists (e.g. an attractive climate, lakes or ocean, mountains, parks, and cultural opportunities). For many communities, joint marketing to promote the area's features is a cost-effective way to foster retiree-based economic development.

MAIN RECOMMENDATION

The Selig Center recommends retiree-based economic development as a good way to grow and diversify Georgia's rural economy. We recommend a deliberate rather than passive approach to recruit amenity-seeking retirees as well as to retain those who already live here. This should include aggressive marketing of the specific local attributes that attract retirees. For example, amenity-seeking retirees are frequently drawn to the same places that attract tourists (e.g. an attractive climate, lakes or ocean, mountains, parks, and cultural opportunities). For many communities, joint marketing to promote the area's features is a cost-effective way to foster retiree-based economic development.

Marketing should be targeted towards persons close to retirement age – persons 55 to 64. That is because many persons 65 and over have already made their decisions where they are going to retire. Retiree-based economic development efforts need to consider familial and institutional relationships when developing recruitment strategies.

GEORGIA IS A RETIREE MAGNET

The Selig Center analyzed migration data reported by the U.S. Census Bureau's 2007-2011 American Community Survey (five-year estimates). The state-to-state migration data for persons over 65 indicates that Georgia remained very competitive in terms of attracting the shrinking number of retirees who continued to

move. The fact that Georgia remained a retiree magnet during these very tough economic times suggests that retiree-based economic development will be an important economic driver in the future.

Our analysis shows that:

- In an average 12-month period, 15,805 retirees move to Georgia from other states or from abroad, which exceeds the 8,506 elderly persons who move away from Georgia.
- About one in seven in-migrating retirees was born in Georgia, suggesting that family ties are an important reason they move back here.
- Many retirees move to Georgia from other southern states, but large numbers also come from Snowbelt states in the Northeast and Midwest.
- The largest inflow of retirees came from Florida (3,589). Others came from New York (986), Alabama (886), Texas (655), Tennessee (617), Pennsylvania (597), South Carolina (538), New Jersey (525), North Carolina (431), and Illinois (374).
- The largest outflows of retirees from Georgia were to Florida, Alabama, North Carolina, Tennessee, South Carolina, Ohio, Texas, Virginia, Pennsylvania, and California.
- The net flow of 4,538 migrating domestic retirees to Georgia equals 35 percent of the gross inflow. Georgia therefore has an excellent balance of trade among the states when it comes to retiree migration.
- Georgia's ten most efficient retiree migration exchanges are primarily with states in the Northeast and Midwest. The retiree migration efficiency rate is defined as net migration of retirees per 100 gross migrating retirees. A value of zero means that the exchange of retirees between two states is completely inefficient (equal in both directions). In contrast, the maximum efficiency rate is 100, which implies that the exchange of retirees is all in one direction, or completely efficient.
- On average, retirees who move here have lower incomes than retirees who leave the state: the per capita income of in-migrating retirees was \$24,902 versus \$28,405 for out-migrating retirees.
- Georgia posted an extremely favorable balance of trade when it comes to migrating retirees' income –



Savannah and the Golden Isles are Georgia's premiere destinations, favored by visitors and newcomers of all ages. Beach scene on Jekyll Island, Georgia (Photo courtesy of the Jekyll Island Authority. Used by permission)

\$325 million comes into the state and \$241 million leaves it, for a gain of \$83 million.

- The most favorable balances of trade in terms of migrating retirees' incomes are with New York (\$26 million), Florida (\$14 million), New Jersey (\$7 million), Massachusetts (\$7 million), and Michigan (\$6 million).
- The least favorable balances of trade are with Texas, Alabama, and North Carolina (-\$6 million each), and South Carolina and Vermont (-\$4 million each).

POPULAR COUNTIES FOR RETIREES

The Selig Center's county-level analysis of retirees indicates that 31,338 of them moved from elsewhere: 15,533 persons (50 percent) moved from one county to another in Georgia; 13,607 (43 percent) moved from another state; and 2,198 (7 percent) moved to Georgia from abroad. [People over 65 who moved within the same county were not included in the analysis.] Because retirees vote with their feet whenever they move from one county to another we estimated retiree attraction indices to determine which Georgia counties are popular.

The retiree attraction index compares the number of people over 65 who moved to the county as a percentage of that county's total population to the same ratio estimated for the U.S. An index value that is over 100 indicates that the county is a retiree magnet; an index value that equals 100 indicates that the county does an average job of attracting retirees. An index value below 100 indicates that the county does a below average job of attracting retirees. Counties with retiree attraction index values over 100 appear to be successful and probably have good potential to attract retirees in the future. In addition, separate indices were estimated for retirees who move from one county to another; retirees who came from another state; and retirees who move from abroad.

The overall retiree attraction index for the state as a whole is 103, indicating that Georgia does better than most states to attract retirees. The more detailed indices show that Georgia is a magnet for retirees who move from other states (index value of 108), but not for retirees moving from abroad (index value of 64). The analysis of U.S. Census county-level mobility data for the period 2007-2011 reveals which counties are retiree magnets. Key findings show that:

- The 15 counties with the highest overall retiree attraction index values are Quitman, Union, Towns, Candler, Glascock, Seminole, Clay, Wilcox, Irwin, Fannin, Effingham, Peach, Lamar, Miller, and McDuffie.
- Retirees who move to different counties within Georgia favor Candler, Miller, McIntosh, Irwin, Quitman, Wilcox, Evans, Haralson, Greene, Effingham, Towns, McDuffie, Jasper, Polk, and Pierce counties.
- Retirees who move from another state often choose Quitman, Glascock, Union, Clay, Towns, Emanuel,

RETIREE ATTRACTION INDEX: GEORGIA'S TOP 15 COUNTIES



Source: Selig Center for Economic Growth, Terry College of Business, The University of Georgia, based on U.S. Census Bureau American Community Survey, 2007-2011

Peach, Hancock, Madison, Jeff Davis, Fannin, Candler, Wayne, Rabun, and Tattall counties.

- The 15 counties that attract seniors who relocate here from abroad are Seminole, Lamar, Ware, Baldwin, Forsyth, Gilmer, Heard, Pickens, McDuffie, Evans, Colquitt, Fannin, Gwinnett, Baker, and Liberty.

Although many of the county-level findings make intuitive sense, others may be surprising. It is important to recognize that these findings reflect the influence of many factors, ranging from the presence of natural or man-made amenities to differences in costs of living or local taxes. In addition, for a county with a small population, a single new residential or commercial development can make a significant difference. In addition, despite the utilization of the five-year American Community Surveys instead of either the three-year or the one-year American Community Survey, standard errors are large for groups with small populations (e.g., persons 65 and over who moved). In addition, data for a time other than 2007-2011 might have produced a different result. For these and other reasons, it is important to conduct a detailed county-level feasibility study prior to committing significant time or financial resources towards recruiting retirees.

One limitation of relying heavily on tax policy to attract retirees, however, is that the link between tax policy and retiree in-migration does not appear to be very strong. Consequently, extending tax breaks to the elderly results in large revenue losses. So, for retirees who are likely to move – especially for those considering a long-distance move – satisfying their preferences for amenities probably matters much more than local tax policies, but local tax policies still matter.

ADVANTAGEOUS TAX STRUCTURE

Retirees are attracted to places with relatively low state and local taxes, especially if the tax burden falls more heavily on income taxes than on sales or property taxes. Georgia ranks 33 among the states in terms of its state-local tax burden, which appeals to everybody. But, Georgia's tax structure is especially attractive to wealthy retirees due to its generous retirement income exclusion – \$130,000 for couples – and Social Security income is fully exempt. Property tax burdens are below the national average, and many local governments provide special property tax breaks for elderly residents. There is no estate or inheritance tax. The bottom line is that Georgia's tax structure is a significant competitive advantage in attracting retirees. It is very important for Georgia's economic developers to provide this information to retirees.

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Moreover, the spending priorities of state and local governments can make a destination more or less attractive to retirees. Spending for public safety, recreation, and parks helps to attract or retain amenity-seeking retirees whereas spending on welfare programs does not.

ECONOMIC IMPACT

In-migrating retirees create economic impacts in terms of output (gross receipts or sales), value added (state GDP), labor income, and employment. In an average 12-month period during 2007-2011, 15,805 retirees moved to Georgia from other states or abroad. The annual statewide economic impact of a typical year's inflow of in-migrating retirees includes:

- \$941 million in output (sales);

- \$545 million in value added (gross regional product);
- \$365 million in income; and
- 8,574 full- and part-time jobs.

These benefits permeate both the private and public sectors of Georgia's economy, especially counties identified as retiree magnets. The private-sector jobs are heavily concentrated in ten industries: private hospitals, new home construction, food and beverage services, doctor's and dentist's offices, real estate, home health care, office- and home-related services, nursing and residential care facilities, grocery and general merchandise stores.

Three categories of statewide economic impacts were estimated: (1) annual spending by in-migrating retirees for goods and services as well as the multiplier effects of this spending; (2) annual spending by Medicare on behalf of in-migrating retirees as well as the multiplier effects of such spending; and (3) the one-time impact of new home construction that is related to spending by in-migrating retirees.

In addition, the accumulated wealth (net worth) of 15,805 in-migrating retirees was estimated to be \$8 billion. Although this annual influx of wealth may or may not be invested in Georgia, each year in-migrating retirees significantly expand the capital base that is controlled by the state's residents.

POLICY INSIGHTS

Common sense and academic research indicate that tax/fiscal policies affect retirees' location decisions. Retirees are attracted to places with relatively low state and local taxes, especially if the tax burden falls more heavily on workers via income taxes than on retirees via sales or property taxes.

The Tax Foundation estimates that Georgia's annual state-local tax burden is 9 percent of residents' income compared to the national average of 9.9 percent. Georgia ranks 33 among the states in terms of its state-local tax burden. Moreover, Georgia appeals to retirees with substantial retirement income due to its generous retirement income exclusion – \$65,000 for singles and \$130,000 for couples. Social Security income also is fully exempt.

Property tax burdens are below the national average: an effective tax rate on owner-occupied housing as a percentage of median home values is 0.93 percent in

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Georgia versus 1.14 percent for the nation. In addition, many local governments provide special property tax breaks for elderly residents.

Georgia ranks 23 among the states with respect to its combined state and average local sales tax rate (6.87 percent in 2011). Exemptions for food, medicine, and medical services help to shield the elderly from the full impact of the sales tax. There is no estate or inheritance tax. Overall, Georgia's tax structure is a significant competitive advantage in attracting retirees.

One drawback to using tax policy to attract retirees, however, is that the linkage between tax policy and retiree in-migration is not very strong. Therefore, extending tax breaks to the elderly result in large revenue losses. If tax breaks could be limited to in-migrating retirees only, then tax policy would be much more cost effective, but that is difficult to do.

Creating special tax exemptions for retirement income and property tax breaks for seniors are two ways states/communities use tax policy to attract retirees while limiting revenue losses. The result is that for retirees who are likely to move – especially for those considering a long-distance move – satisfying their preferences for amenities probably matters much more than local tax policies.

The spending priorities of state and local governments also can make a destination more or less attractive to retirees. Spending for public safety, recreation, and parks helps to attract or retain amenity-seeking retirees whereas spending on welfare programs does not. Evidence about spending on education is mixed, or inconclusive. Similar to tax policy, the linkage between government spending priorities and retiree in-migration is weak in comparison to the presence or absence of local attractiveness.

At the local level, retiree-based economic development tends to benefit labor-intensive industries such as health care, home building, restaurants, retailing, and household services rather than manufacturing, mining, agriculture, or government. Hence, retiree-based economic development is one way for a rural area or small town with an economic structure tilted to goods producing industries or government to diversify its economic base.

Diversification achieved via retiree-based economic development can make the rural economy somewhat less vulnerable to the ups and downs in goods and commodity markets while simultaneously reducing the local economy's exposure to global competition. In ad-

dition, the rural or small town economy will become less dependent on the actions of a few large employers.

Retirees' steady incomes and spending provide a stabilizing influence on regional economic activity because their incomes and wealth do not depend on local economic conditions. The rebalancing of local economic activity towards the retirement industry and away from goods producing industries and government may reduce the overall riskiness of the operating environment, especially in small towns and rural counties. Many rural businesses other than those that cater to retirees would benefit from greater stability of the local consumer market.

In small towns and rural areas, in-migrating retirees may provide the critical mass necessary to support certain types of businesses that previously did not exist. Residents will not need to make as many trips to nearby metropolitan areas to shop. This makes the community even more attractive to retirees (and others), potentially creating a virtuous cycle of economic growth and development.

Amenity-seeking retirees frequently gravitate to the same places that attract tourists. For many communities, the joint marketing of amenities to retirees and tourists is a cost-effective way to foster retiree-based economic development. Rural communities can target states that already send vacationers to Georgia. Marketing designed

to attract retirees also should target those close to retirement age – persons 55 to 64. That is because many persons 65 and over have already made their decisions where they are going to retire. Indeed, prior to retirement, many baby boomers buy vacation homes in the places they plan to retire.

Family ties are an important way to attract retirees who plan to move to fulfill their amenity preferences. Family ties also are vital for assistance-related moves, but it is not necessary to market to retirees relocating for assistance-related reasons. Nearly one in seven (2,351 of 15,805) in-migrating retirees were born in Georgia. About half of the in-migrating retirees from Colorado, Minnesota, and Kentucky were born in Georgia. Nearly two out of every five in-migrating retirees from Alabama were born in Georgia. Retiree-based economic development efforts need to consider familial relationships when developing their retiree-recruitment strategies. For example, public facilities often host family reunions, creating ideal opportunities to market the community to family members.

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Although a realistic assessment of a community's potential to attract retirees is essential, this study relies on very broad demographic statistics that merely scratch the surface. Data for a period other than 2007-2011 might have produced a different result, especially since it was an unusual time in modern American economic history. In addition, despite the use of the five-year American Community Surveys, the small number of people analyzed meant that standard errors were large. For these and other reasons, it is important to conduct a detailed county- or metropolitan-level feasibility study prior to committing significant time and money to retiree-based economic development. Does the community have what retirees seek? Does the area already attract tourists? If so, then retiree-based economic development makes sense. If not, then perhaps other types of economic development would yield better returns.


RISKS

Finally, consider the risks inherent in retiree-based economic development. In the future, the greatest risks involve possible substantial changes in federal government programs such as Social Security and Medicare. Retirees' spending will be very sensitive to changes in these federal programs and thus could have large economic repercussions on their communities. Another risk is that extended periods of high inflation could erode the purchasing power of retirees' pensions and their net worth. Recent experience highlights yet another risk: periods of very low rates of return on Treasuries or CDs can reduce retirees' current income. We also have just seen that severe housing busts and/or severe recessions can reduce retirees' willingness to move, temporarily limiting the prospects for retiree recruitment.

Consider that success in recruiting retirees can make a community less interested in recruiting other businesses, especially if these conflict with retirees' preferred lifestyles. Success can also bring traffic congestion as well as other overutilization of public infrastructure that some retirees moved to the community to avoid. It should be noted, however, that increased demand for public infrastructure (or public services) generated by retirees does not necessarily result in congestion or higher taxes. In-migrating retirees can provide the additional revenue and demand needed to support improvements and/or expansions that the community might not be able to afford otherwise.

The successful recruitment of retirees can shift the balance of political power away from the working population to in-migrating retirees. For example, retirees may push for spending for public safety and recreation instead of spending on K-12 education. Finally, as more communities recognize the opportunities and the benefits of attracting retirees, the competition for them will intensify.

Despite some risks, the Selig Center recommends retiree-based economic development as a good way to grow and diversify rural Georgia's economy. Rural Georgia can benefit substantially from a strong demographic trend – the retirement of the baby boomers – that is baked in through about 2028. The Selig Center recommends a deliberate rather than a passive approach towards recruiting amenity-seeking retirees as well as retaining retirees who already live in Georgia.

Note: The full report is available on the Selig Center's website: www.terry.uga.edu/media/documents/selig-golden-rules-2013.pdf 

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