

LOUISIANA'S RETIREMENT-AGE RESIDENTS ARE "GRAY GOLD"

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As part of its strategy to make Louisiana into a premier retirement destination, the Louisiana Retirement Development Commission hired THOMAS, WARREN + ASSOCIATES of Phoenix, Arizona to evaluate the impacts of retirement-age (age 55 and better) residents of Louisiana. The results of this recently completed study showed Louisiana's retirement-age residents are "gray gold". THOMAS, WARREN + ASSOCIATES estimated that in the year 2000 Louisiana reaped a net public benefit of almost \$320 million from its retirement-age residents. On a per capita basis, Louisiana's retirement-age residents were estimated to have had nearly twice the annual income, spent almost twice as much, and paid almost twice as much in state taxes as did younger residents. While Louisiana paid about 50% more per capita for the medical expenses of a typical retirement-age resident than it did for a younger resident, this difference was more than offset by the additional taxes paid by retirement-age residents. In short, Louisiana would be economically far worse off without its retirement-age residents.

The study by THOMAS, WARREN + ASSOCIATES, *The Economic Impacts of Retirement-Age Residents of Louisiana*, was undertaken specifically to estimate the economic costs and benefits of Louisiana residents age 55 and better. Age 55 was chosen as the cut-off age because it includes not only those already retired (age 65+) but those in the process of retiring (age 55-64). The study only considered the economic costs and benefits to the State in the year 2000. Had the economic costs and benefits of retirement-age residents of parishes (*i.e.*, property taxes paid) also been included, the net economic benefits would have undoubtedly been much higher.

Using data compiled by the U.S. Office of the Management and Budget, THOMAS, WARREN + ASSOCIATES estimated the spending patterns of Louisiana residents under age 55 and age 55 and older in over 50 different expenditure categories. Applying appropriate sales tax rates to these expenditures, it was found that the average retirement-age resident of Louisiana paid \$439 in sales taxes while younger residents paid only \$272 on the average. Further, using data from Louisiana's Department of Revenue, it was estimated that a retirement-age resident of Louisiana paid an average of \$604 in state incomes taxes while younger residents paid an average of only \$291. Thus,



a retirement-age resident of the State paid an average of \$1,043 in state taxes while a resident under age 55 paid an average of only \$563.

It has always been thought that retirement-age individuals get more than their fair share of publicly funded medical expenditures. The study by THOMAS, WARREN + ASSOCIATES dispels this misconception, at least for Louisiana. The study showed that in Louisiana, an average retirement-age resident received \$371 in state funded medical expenses in 2000 while an average resident under age 55 received only \$247. However, because an average retirement-age resident paid more in state taxes than one under age 55, the additional taxes paid by a retirement-age resident more than offsets the additional medical expenses.

Specifically, an average retirement-age resident of Louisiana paid \$480 (= \$1,043 - \$563) more in state taxes than did someone under age 55, but also used \$124 (= \$371 - \$247) more in state funded medical expenses. Thus, the net public economic benefit of an average retirement-age resident of Louisiana is \$356 (= \$480 - \$124). Because there are almost four times as many residents of Louisiana under age 55 as there are residents over age 55, this \$356 per capita difference amounts to a \$89 tax subsidy for each younger resident of Louisiana by the State's retirement-age residents.

The benefits to Louisiana from its retirement-age residents do not end with the taxes they pay. Their spending fuels the State's economy and creates jobs. Based on U.S. Census income data and U.S. Office of Management and Budget consumer expenditure data, THOMAS, WARREN + ASSOCIATES estimated that Louisiana households headed by retirement-age residents (retirement-age households) spent \$19.4 billion in the year 2000. This figure does not include the \$4.4 billion in Medicare payments made on their behalf. Thus, adding the two, it was estimated that in the year 2000 retirement-age households in Louisiana spent \$23.8 billion. Not only is this figure significant in absolute terms, it also means that the 20% of Louisiana's population who are retirement-age account for almost 38% of the consumer expenditures made by all residents of the State.

Not only does an average retirement-age household in Louisiana spend proportionally more than its younger counterpart, it has a different consumption pattern. THOMAS, WARREN + ASSOCIATES found that a younger household spends more on food and beverage, apparel, transportation, recreation, and education than does one headed by a retirement-age resident. Households headed by retirement-age residents spend more on services, shelter, household operations, (out-of-pocket)

medical expenses, and give more to charity than do households headed by someone under age 55. The implication of these spending patterns is that retirement-age households spend more in categories where their spending is more likely to remain in the State, whereas younger households spend more in categories where a larger portion is likely to leave the State.

An ancillary benefit of the spending patterns of retirement-age resident of Louisiana is their sizable contribution to charity. THOMAS, WARREN + ASSOCIATES estimated that in the year 2000 Louisiana's retirement-age residents contributed almost \$600 million to charity. This compares quite favorably to the estimated \$640 million contributed by the State's younger residents. Because there are four times as many residents of Louisiana under age 55 as there are residents age 55 and older, the per capita contributions are even more dramatic. It was estimated that in the year 2000 an average retirement-age resident of Louisiana contributed almost \$1,053 to charity while an average younger resident of the State contributed only \$589.

The real importance of consumer spending is not only the fuel it provides to Louisiana's economic engine, but the jobs the spending creates. A part of every dollar spent at a Louisiana business is used by the business to pay its employees who, in turn, spend their salaries at other businesses that use the money to pay their employees, and so on. Thus, every dollar spent in Louisiana is used to pay a portion of many workers' salaries. In fact, it has been estimated that one job in Louisiana is created by every \$50,000 in spending by retirement-age households. A quick calculation shows that the \$23.8 billion spent by retirement-age households in Louisiana in 2000 created 47,600 jobs in the State.

The benefit the State derives from its retirement-age residents is a direct result of their income. THOMAS, WARREN + ASSOCIATES found that retirement-age residents of Louisiana are truly resourceful. It was estimated that in the year 2000 the income of an average retirement-age resident of Louisiana was \$28,477 which compared quite favorably to the \$14,806 average income of an average resident under age 55. Put another way, although retirement-age residents constitute only 20% of the State's population, they account for almost 33% of the income of all residents of Louisiana. If only potential wage earners are included in the younger age group, the income of an average 18 to 55 year old resident of Louisiana rises to \$22,481, still significantly below the \$28,477 income of an average retirement-age resident.

In terms of its percent of retirement-age residents, Louisiana is currently quite close to the

national average. Over the last four decades of the 20th century, Louisiana’s retirement-age population grew faster than their younger counterparts. However, this growth has been largely due to the aging of the State’s resident population, not the migration of retirement-age individuals into the state. In 2000, only 8.6% of Louisiana’s retirement-age population moved to the State after turning age 55.

Louisiana residents of all ages benefit economically from the presence of retirement-age residents. Their spending subsidizes the sales and income tax burden of younger residents of the State. Their spending, largely unaffected by recession, fuels the State’s economic engine making them a key component of the State’s economy. Thus, the continued growth of the State’s retirement-age population can provide a buffer against declines in other areas of the economy. In short, retirement-age residents of Louisiana are likely as valuable a resource to the State as is its “black gold”. Thus for Louisiana, retirement-age residents can properly be thought of as “gray gold”.

Gene Warren is President and CEO of THOMAS, WARREN + ASSOCIATES, LLC, an economic and policy research firm. Dr. Warren is a nationally recognized expert in the economics of retirement. His work in this area has been applied to shape both state and local policies affecting retirees. He has spoken on the advantages of attracting retirees as a form of economic development to audiences across the country. The firm is located at 1501 W. Amelia Avenue, Suite 101, Phoenix, Arizona 85015. Dr. Warren can be reached at (602) 277-1957 or ehwarren@twaiconsulting.com. More information about THOMAS, WARREN + ASSOCIATES can be found at www.twaiconsulting.com.

