The Potential Economic Impacts of Attracting Retirees to New Mexico

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INTRODUCTION

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A 2018 USA Today article ranked New Mexico's economy as 46th in the country, behind neighboring states Colorado (1st), Utah (2nd), Texas (21st), Arizona (36th), and Oklahoma (41st). The article's authors cited the state's high poverty rates, high unemployment rates, and low employment growth rates for the low ranking (Sauter et al., 2018). Similar rankings have been reported by U.S. News & World Report (2018), Business Insider (Kiersz, 2018), and Wallet Hub (McCann, 2018). Recognizing New Mexico's economic struggles, economic development stakeholders continue to explore ways to improve the state's economy. One area that may hold promise is that of retiree attraction.

Attracting and retaining retirees as an economic development tool is not a new strategy; it was introduced in the early and mid-1980s (Serow, 2003). For example, Summers and Hirschl (1985) proposed that retirement income could benefit a local economy in four distinct ways: (1) increasing the demand for goods and services, (2) providing a source of investment funds for local enterprises, (3) increasing exportable goods and services, and (4) creating a capital pool that could be used for local projects. Scalise (1992) suggested that "attracting a retirement population with existing financial resources has enormous positive economic ramifications" (p. 5) and suggested retirees can contribute to an economy via their demand for goods and services. Increased demand for final goods and services triggers demand for intermediate goods throughout the economy, and in some cases can create "spin-off" industries.

More recently, a number of groups, such as economic development councils and economic development agencies, have touted the potential impacts of retirees on local and regional economies. Benefits identified by these groups include development of new jobs, volunteer work, increased property and sales taxes (Murphy-Redd, 2019), increased economic diversity, reduced eco-

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nomic risks, and promotion of steady incomes (Humphreys and Kochut, 2013).

Several researchers have attempted to quantify the economic impact that retirees have on a particular region. For example, researchers with the University of South Carolina's SmartState Center of Economic Excellence in Tourism and Economic Development (Hudson et al., 2015) estimated the economic impact that retirees make to South Carolina's economy via three sources: in-state expenditures on goods and services, in-state new home construction, and volunteer time offered by retirees. Using input-output analysis facilitated via IMPLAN software, the researchers estimated that a 5% increase in the number of retirees (2,692 retirees[2]) in South Carolina would result in more than $100 million in total economic output.

Similarly, researchers at the Selig Center for Economic Growth at the University of Georgia (Humphreys and Kochut, 2013) used IMPLAN and input-output analysis to estimate the total economic impact that retirees have on the state of Georgia via retiree spending on goods and services, Medicare expenditures made on their behalf, and new home construction. The researchers found that Georgia's 15,805 retirees (average retiree inflow between 2007 and 2011) contributed $941 million to the state's economy annually.

Our research explored the potential economic impact of attracting retirees to the state of New Mexico. Community developers and policy makers can use the information in conjunction with previously developed information (e.g., estimates of the fiscal impacts of retiree attraction [Grassberger and Lillywhite, 2018]) to make better-informed decisions about strategies to attract and retain retirees to the state. The research follows a similar approach as those noted above, using IMPLAN and input-output analysis to estimate the potential economic impact that retirees may have on the state. This research differs from these previous studies in that it estimates the impact at the individual household level, i.e., it attempts to answer the question "What is the impact on New Mexico's economy when a new retiree household comes to the state?" The analysis takes a conservative approach, using only estimated new home construction and direct retiree household expenditures as initial economic impacts.[3]

METHODOLOGY AND DATA

Methodology

Input-output analysis, a methodology developed in the 1930s, uses the interrelationships between industries within an economy to illustrate or estimate the impacts that a change in any one sector can have within the system or on the system as a whole. The economic impacts of any particular event using input-output analysis are categorized into three separate categories: direct, indirect, and induced.

Direct effects are impact estimates, measured in dollars, that are a result of initial inputs purchased by a particular sector. For example, if a retiree upon arrival to a new state builds a new home, the expenditures associated with the home would be considered direct effects.

Indirect effects are impacts to the economy that result from intermediary purchases between sectors within the economy. For example, a lumber company purchasing new equipment as a result of increased need due to the initial home build would be considered an indirect effect.

Induced effects are the value of increased household spending that results from increased incomes that were generated through direct and indirect activities. For example, a lumber company increasing the amount of labor it uses in order to meet demands generated in direct and indirect effects. Household spending from this new labor would be considered an induced effect.

Input-output analysis, as facilitated in the IMPLAN software, is based on several stringent assumptions, including:

(1) Constant returns to scale. Input requirements remain constant per unit of output, regardless of how much output is generated, i.e., a ten percent increase in output requires a ten percent increase in inputs.
(2) No supply constraints. There are unlimited amounts of inputs available for production.
(3) Fixed input structure. Substitutions in inputs in response to changes in output are not allowed.
(4) Industry technology assumption. An industry uses the same technology to produce each of the products within the industry.
(5) Constant make matrix. Industries increase outputs proportionately, i.e., one output produced within the industry will not increase without a proportionate increase in other outputs within the same industry.
(6) Time is static. Changes in input mixes, i.e., adoption of technologies over time that would change input uses, are not reflected in the methodology.

It should also be noted that IMPLAN identifies only backward linkages throughout the economy. These assumptions are strong and have important ramifications for results obtained from the methodology, but an in-depth discussion is beyond the scope of this report. Readers interested in understanding model limitations in more depth should consult Cheney (2019).

The results discussed below were obtained using IMPLAN's 2017 data and calculation process.

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[2] Researchers estimated that 53,845 people retire to South Carolina annually.

[3] Others have included the value of volunteer work (Hudson et al., 2015) and Medicare spending (Humphreys and Kochut, 2013). Future research could explore these potential direct impacts as well as others, e.g., part-time retirement employment and/or entrepreneurial income. Including these activities will increase the reported economic impact.

Data

In order to model the impacts of a retiree household moving to New Mexico, two direct impacts had to be estimated. First, how much money is or would be spent by retiree households had to be estimated. Second, because many—but not all—retirees will purchase newly constructed homes when they migrate into the state, the percent of retiree households who would choose to purchase a newly constructed home had to be estimated.

Spending potential for retirees was estimated using data from the U.S. Census Bureau/Bureau of Labor Statistics' 2017 Consumer Expenditure Survey.[4] The collected data on various expenditures made by consumers is stratified by income and demographic characteristics. Surveys of U.S. consumer spending patterns have been conducted since 1980, and data collected from the survey are used in the calculation of the Consumer Price Index (Census, 2019). Expenditure data provided by the Census Bureau are delineated into various components, including expenditures by age, education, region, and ethnicity.

Expenditure estimates used in the analysis focused on expenditures made by households where the reference person (i.e., household respondent) was at least 55 years old or older because this group best represents households nearing retirement or already retired. The data were further refined to identify households with annual incomes of $70,000 or more because these households represent more affluent households that may have more opportunity to relocate in retirement.[5] Households in this category had average incomes (before taxes) of $142,212, of which 64.4% ($91,625) was associated with various expenditures (Table 1).

Expenditures in the Consumer Expenditure Survey are reported as various goods and services. Researchers were required to translate or categorize various expenditures into appropriate corresponding economic sectors that are identified and available in the IMPLAN software. Table 2 provides a summary of expenditure levels for a household making $70,000 as delineated by economic sectors in the IMPLAN software. The total expenditure level is $45,100, or 64.4% of $70,000.

Without conducting more intensive research (e.g., a survey of retirees who recently moved into the state), it is difficult to estimate the percentage of retiree households that purchase newly constructed homes upon relocation. For the purposes of this analysis we assume 20% of retiree households purchase a newly constructed home. The percentage is based on a survey conducted by Wylde (2019) where 23% of retiree participants indicated that they either

Table 1. Expenditures by U.S. Consumers, 55 Years Old or Older, $70,000 or More Annual Income

Category	Dollars	Percent
Food	10,190.50	11.1
Alcoholic beverages	982.00	1.1
Housing	26,928.00	29.4
Apparel and services	2,365.00	2.6
Transportation	14,331.50	15.6
Healthcare	8,697.00	9.5
Entertainment	4,906.00	5.4
Personal care products and services	1,131.00	1.2
Reading	242.00	0.3
Education	2,010.00	2.2
Tobacco products and smoking supplies	321.50	0.4
Miscellaneous	1,744.00	1.9
Cash contributions	4,784.50	5.2
Personal insurance and pensions	12,992.00	14.2

Source: U.S. Bureau of Labor Statistics 2017 Consumer Expenditure Survey.

Table 2. Retiree Household Expenditures as Used in IMPLAN

Category	Dollars	Percent
525* Local government electric utilities	2,578.00	5.7
406 Retail - Miscellaneous store retailers	12,140.00	26.9
412 Transit and ground passenger transportation	652.00	1.4
434 Nondepository credit intermediation and related activities	8,816.00	19.5
438 Insurance agencies, brokerages, and related activities	1,163.00	2.6
440 Real estate	1,868.00	4.1
474 Other educational services	989.00	2.2
478 Outpatient care centers	4,281.00	9.5
496 Other amusement and recreation industries	2,534.00	5.6
502 Limited-service restaurants	2,288.00	5.1
485 Individual and family services	5,803.00	12.9
526 Other local government enterprises	1,989.00	4.4

* The three-digit numbers represent IMPLAN-defined industry classifications.

[4] The 2017 survey represents the most recent data available at the time of the analysis.

[5] For additional clarification about this assumption, see Grassberger and Lillywhite (2018).

built a new home (7%) or purchased a new home from a developer's portfolio (16%). Zillow estimates that the median home price in New Mexico is $195,700 (Zillow, 2019). In a 2018 survey of U.S. residents 50 to 70 years of age, Lillywhite et al. (2019) found the average price that a potential retiree (50 to 70 years old and willing to consider New Mexico as a place to retire) was willing to pay for a new home was $218,053, with a median price of $200,000.

The expenditures identified in Table 2 and $40,000 ($200,000 × 20%) were used as "direct effects" in the IMPLAN modeling framework to provide estimates of potential impacts that attracting one retiree household could have on New Mexico's economy.

RESULTS

Table 3 shows the estimated direct, indirect, and induced effects of attracting one additional retiree household (approximately two people per household) to the state in terms of total economic output and employment. The initial $85,101 in spending ($40,000 for newly constructed home and $45,101 in annual expenditures) makes up the direct effect. Indirect and induced effects add an additional $56,560 of economic activity, for a total impact of $141,661. The output multiplier associated with one retiree household is 1.66 ($141,661/$85,101), suggesting that for every one dollar spent by a retiree household an additional $0.66 of economic activity is generated throughout the state's economy.

Table 4 shows that the industries most impacted by retiree attraction include construction (residential homes), retail stores, and financial institutions.

While retiree household members do not necessarily work during retirement[6], they do create or support employment through their spending. The analysis indicated that initial spending (direct spending) by a retiree household as described above supported one job within the economy. When additional economic activities created through indirect and induced effects are accounted for, one retiree household supports 1.4 jobs in New Mexico. The employment multiplier is estimated to equal 1.4 (1.4/1.0). Table 5 shows the top ten sectors within New Mexico's economy that are most impacted by retiree attraction from the perspective of employment or jobs.

While the impacts reported in Tables 3, 4, and 5 represent contributions to economic output in the first year that a retiree household relocates to New Mexico, impacts associated with annual spending, but not home construction (e.g., $45,101 used above), would continue beyond the first year.

[6] The analysis described in this report does not assume retirees work part-time or in entrepreneurial endeavors, although it is likely that many may choose to do so. Including these activities would increase the economic contributions described below.

Table 3. Direct, Indirect, and Induced Effects of One Retiree Household

Impact Type	Output	Employment
Direct effect	$85,101	1.0
Indirect effect	$27,177	0.2
Induced effect	$29,383	0.2
Total effect	$141,661	1.4

Table 4. Top Ten Industries Impacted by Retiree Household, by Output

Description	Output
Construction of new single-family residential structures	$40,000
Retail - Miscellaneous store retailers	$12,621
Nondepository credit intermediation and related activities	$9,347
Real estate	$7,537
Individual and family services	$6,042
Outpatient care centers	$4,718
Owner-occupied dwellings	$3,957
Limited-service restaurants	$3,665
Insurance agencies, brokerages, and related activities	$3,534
Other local government enterprises	$3,182

Table 5. Top Ten Industries Impacted by Retiree Household, by Employment

Description	Employment
Retail - Miscellaneous store retailers	0.291
Construction of new single-family residential structures	0.285
Individual and family services	0.183
Nondepository credit intermediation and related activities	0.069
Limited-service restaurants	0.045
Other amusement and recreation industries	0.043
Real estate	0.033
Other educational services	0.032
Outpatient care centers	0.030
Insurance agencies, brokerages, and related activities	0.021

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CONCLUSIONS

With rankings like those cited in the introduction and negative factors associated with those rankings—like poverty level and employment growth—New Mexico must improve its economic prospects. One way in which the state could increase its economic growth in a relatively short timeframe is by attracting retirees to the state. Proponents of a retiree attraction program have identified a number of ways in which retirees can positively impact a state or region's economy. A key factor often identified by these proponents is that of increased demand for consumer goods and services and the resulting derived demand for secondary goods within the economy. The research described in this paper has examined the potential impact that increased spending by retiree households could have on New Mexico.

Using IMPLAN and the commonly used input-output methodology, it is estimated that one retiree household, with characteristics as described above (annual incomes greater than $70,000) would support, in their first year of residency, economic activity (output) of $141,661. Approximately 40% of this activity would be expected to be generated via indirect and induced effects. The retiree household's added economic activity would support an estimated 1.4 jobs in the state's economy.

LIMITATIONS AND FURTHER RESEARCH

The research and estimated results described in this paper have a number of limitations that the reader should understand. These limitations include:

(1) Strong assumptions are made in IMPLAN's input-output methodology. The effects of these assumptions on results is well documented.

(2) Researchers were required to categorize expenditures as reported by the U.S. Census Bureau's Consumer Expenditure Survey into corresponding industrial sectors within the state's economy as available in the IMPLAN software. While error in categorizing these expenditures would impact the sectors in which impacts occurred, the overall result would be only minimally affected.

(3) U.S. average expenditures, as reported in the U.S. Census Bureau's Consumer Expenditure Survey, are used to estimate spending patterns for retirees who would move to New Mexico. There is no guarantee that actual spending habits for individuals moving to New Mexico would be the same as those identified in the survey.

Given the potential important economic contribution that retirees could have on the state's economy, further research is warranted. Further research could:

(1) Develop and administer a survey of retirees who have recently moved to New Mexico. The analysis described in this paper assumes that the expenditures for retirees are equal to those reported by the U.S. Census Bureau's Consumer Expenditure Survey. A survey of recent retirees in New Mexico would confirm the validity of that assumption. Additionally, housing arrangements could be better understood. For example, the percentage of retirees that purchase a newly constructed home and the amount of money spent on new construction could be confirmed.
(2) A longer-term analysis or longitudinal study, e.g., a survey conducted with a retiree panel over a period of years, would allow researchers and stakeholders to better understand changes in spending habits that occur over time as the retiree population ages.

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