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INVESTING IN NORTH CAROLINA'S FUTURE

THE POSITIVE ECONOMIC IMPACT OF EXTENDING THE BAILEY SETTLEMENT TO ALL GOVERNMENT RETIREES

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BY JAMES L. HEDRICK, PH.D

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About the Author:

James L. Hedrick is an independent economic consultant. He has BS and MS degrees from Virginia Tech and a Ph.D. in economics from NC State University. He has extensive research experience in a broad range of areas including health, transportation, agriculture, rural development, training programs, and poverty.

At the federal level, he worked with the US Department of Agriculture (USDA) and the US General Accounting Office (GAO). With USDA, he evaluated the economic impact of the price support and production control programs for tobacco, cotton, and peanuts. With GAO, Dr. Hedrick provided substantial oversight support to the US Congress contributing to changes to the federal government including a major reorganization and downsizing of USDA, decentralization of the Rural Development Program to the state and local levels, redesign of the federal nutrition monitoring system, major oversight and modification of aviation programs, and others. He also has extensive experience with private companies and, overall, has authored over 60 publications.

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{ EXECUTIVE SUMMARY }

North Carolina is currently operating under a court settlement, the "Bailey Settlement," which exempts certain military, federal, state, and local government retirees from paying NC state income taxes (e.g., retirees with five or more years of creditable service as of August 12, 1989). This Settlement lacks permanency since, over time, many new retirees will not meet these criteria, and those now meeting these criteria will decease.

THIS RAISES TWO ISSUES:

1. **NC should pass a statute treating all its military, federal, state, and local government retirees equally by restoring the state income tax exemption on government pension benefits.**

2. **Equitable treatment of government pension benefits will create jobs and stimulate our economy with a benefit cost ratio of 2.5 to 1.**

The 4th Branch, a watchdog group that addresses the issues of nearly 300,000 retired federal, state, local, and military personnel, was instrumental in the Bailey Settlement. The 4th Branch initiated this study to determine whether economic benefits to the state are sufficient to offset the revenue losses from the income tax exemption; if so, it provides a sound reason to support the passage of a state statute.

Scope and Methodology

This study launched a large-scale survey of retired military, federal, state, and local NC government retirees to determine their demographic, economic and community characteristics — information that was lacking but was crucial to assessing the economic contribution of retirees. This survey data, a major literature review, and an economic multiplier analysis provide sound support for study findings.

Multiplier Analysis

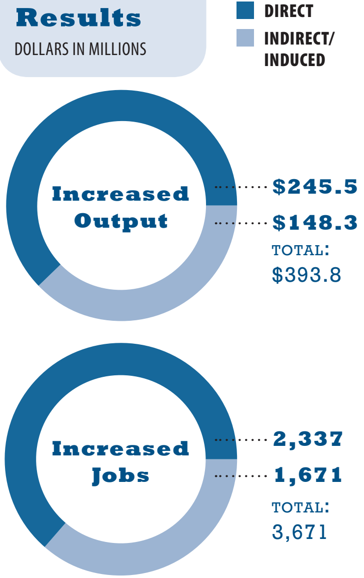
Our multiplier methodology superimposes an income tax exemption for government retirees and then estimates its economic impact on the North Carolina economy in 2007 using the generally-accepted and widely-used IMPLAN model.

This study estimates that the 2007 direct revenue loss to NC from providing an unqualified income tax exemption to government retirees is $245.5 million. This is also the amount of additional income that retirees would have available to spend / save in NC communities.

This increased income for retirees is applied using the NC IMPLAN model, providing the shown results. The table at right shows that the 2007 income tax exemption of $245.5 million (if an tax exemption had been enacted) would have increased the state's 2007 output by $393.8 million for a multiplier of 1.6

IMPLAN Multiplier Results

DOLLARS IN MILLIONS



"Direct effects" represent the increase in incomes associated with an income tax exemption; "indirect / induced" effects represent all other economic impacts in NC.

($393.8 mil. total divided by $245.5 mil. direct output). This exemption also adds 3,671 total jobs.

In-Migration and Retention Incentive

A large body of literature finds that there is a strong incentive for retirees to migrate from states with high income taxes to states with low income taxes. This report shows, conservatively, that the 2007 NC tax exemption would have provided the incentive to generate ten percent additional NC government retiree households annually via in-migration and retention.

State Income Tax Exemptions and Economic Growth

One study compared ten states with the highest income taxes against ten states with the lowest income taxes and found that the highest income tax states had only a 191% increase in economic growth versus a major 455% growth increase in the low tax states.

Major Role of Retirement Income in NC

Government retirement benefits – military, federal, state, and local – represent a strong and rapidly growing component of the NC economy. By 2007, these benefits totaled $6.7 billion, an amount that exceeds the combined 2007 earnings of three traditional NC industries – textiles, furniture, and farm.

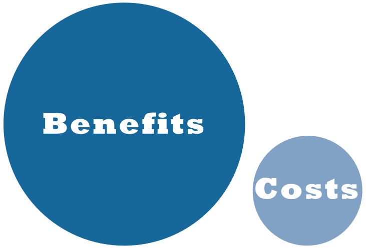
Benefits and Costs

The ratio of benefits to costs of a NC income tax exemption for public retirees is 2.5 to 1.0 showing that such an exemption would be an excellent investment for North Carolina.

2007 ratio of benefits to costs: 2.5/1

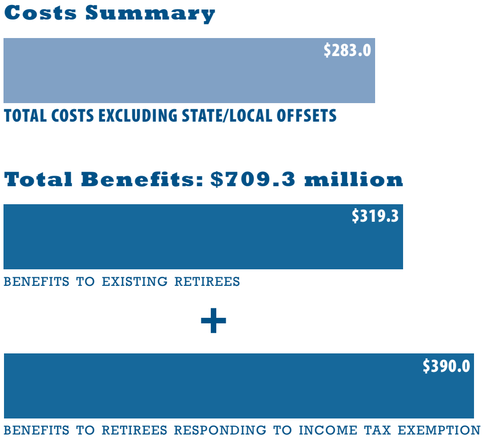
DOLLARS IN MILLIONS

FOLLOWING IS A SUMMARY OF BENEFITS AND COSTS OF A NC INCOME TAX EXEMPTION FOR PUBLIC RETIREES. THE RATIO OF BENEFITS TO COSTS IS 2.5 TO 1.0 SHOWING THAT SUCH AN EXEMPTION WOULD BE AN EXCELLENT INVESTMENT FOR NORTH CAROLINA.



RATIO OF BENEFITS TO COSTS: 2.5/1

In these graphics, all benefits and costs are projected out ten years using 2007 data. Each year's benefits and costs are then discounted to present value



Additional Benefits

HOMES One in five in-migrants purchase new homes, generating $62.7 million in construction benefits to NC.

GROWTH Government retirement benefits now exceed the total earnings income of three traditional NC industries: textile, furniture and related products, and farms.

SERVICE Retiree households provide hours of community volunteer service valued at over $100 million/year.

SCHOOLS The household real estate taxes of two retirees support the public schooling of one community student since few retiree households have their own students.

WEALTH Major wealth increases to the community, stabilization of the business cycle, minimal use of public facilities and services, no smokestacks, and highly educated retirees are additional benefits.

{ INTRODUCTION }

North Carolina (NC) is currently operating under a court settlement, known as the "Bailey Settlement", which exempts certain federal, state, and local government as well as military retirees from paying NC state income taxes (e.g., retirees with five or more years of creditable service as of August 12, 1989). This is a settlement that lacks permanency since, over time, an increasing number of retirees will not meet these criteria, and those that do meet these criteria will eventually decease. Thus, over time, the effects of the Bailey Settlement will diminish to zero.

THIS RAISES THE ISSUE:

NC should invest in its future by exempting all military, federal, state, and local retirees from paying state income taxes on government pensions. If NC benefits from economic development and from state/local revenue offsets sufficient to more than cover these income tax revenues, then the pension income tax elimination is a viable alternative that deserves full support as a state statute.

The 4th Branch, a watchdog group that addresses the issues of nearly 300,000 retired federal, state, local, and military personnel before the NC state legislature, was instrumental in the process that ultimately exempted the above mentioned federal, state, local, and military retirees from paying NC income tax on their government retirement pensions under the Bailey Settlement. However, the 4th Branch believes that the income tax exemption warrants consideration for permanent status and has initiated this study to determine whether economic benefits to the state, as well as attendant income and other tax revenues to state and local governments, are sufficient to offset the revenue losses from the income tax exemption.

This study launched a large-scale survey of retired federal, state, and local NC retirees in an effort to determine who these retirees are, where they live, their incomes and income sources, their educational levels, their family incomes, their tax expenditures, and their volunteer contributions to communities. Such specific information is almost non-existent but is crucial to understanding the state and local contributions of retirees. This survey data, the results of the literature review, and the data provided by a multiplier analysis provide the foundation for the findings of this study.

STUDIES HAVE SHOWN THAT THERE ARE A WIDE RANGE OF RETIREE BENEFITS TO STATES AND LOCALITIES. BENEFITS ARE MOST PRONOUNCED FOR HIGH INCOME AND WELL EDUCATED GOVERNMENT RETIREES. RETIREES PROVIDE BENEFITS THROUGH PURCHASE OF GOODS AND SERVICES, EXTENSIVE ASSETS INCLUDING HOME OWNERSHIP, TAXES PAID, AND VOLUNTEER/ CHARITABLE CONTRIBUTIONS. OVERALL, RETIREES COMPRISE AN IMPORTANT NON-SMOKESTACK ECONOMIC SECTOR PARTIALLY RESISTANT TO ECONOMIC RECESSION.

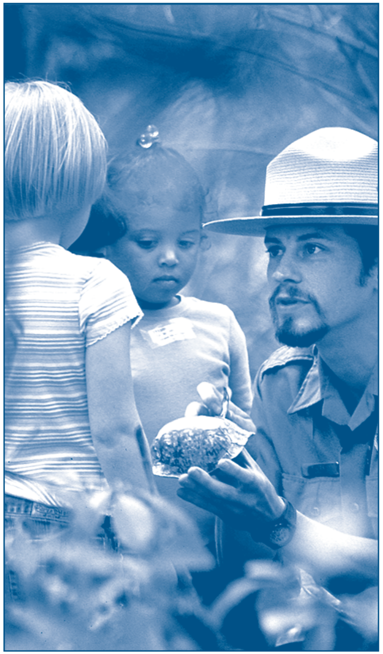
{ CHAPTER 1 }

THE BENEFITS OF RETIREES TO COMMUNITIES

A Literature Summary

There is an extensive body of literature that addresses the economic and related benefits of retirees to the communities in which they reside. Generally, as this chapter will show, the retiree benefits are sufficiently attractive to cause many states and localities to review such benefits and to consider whether there are incentives, such as tax breaks, that they can use to draw in retirees from other states. Whereas, **CHAPTER 2** will review retiree tax incentives, this chapter addresses both the types of retiree benefits and the reported extent of such benefits. This literature reflects the situation of retirees in general; there is little literature that specifically addresses government retirees, although they are a very important retiree segment as will be shown in this report.

Retirees benefit a community in many ways. They consume goods and services, such as housing, food, entertainment, health services and many others. They are typically home owners and the value of their homes and other assets exceeds that of the non-retiree. Such expenditures and assets create jobs and stimulate local businesses. Retirees pay taxes that support public expenditures and services. They bring capital into the community, that stimulates local banks and financial institutions. Some retirees start their own businesses or gain re-employment. Their families also contribute to the economy and community.



GOVERNMENT EMPLOYEES, WHEN THEY RETIRE, BENEFIT A COMMUNITY IN MANY WAYS — INCLUDING COMMUNITY EDUCATION

The 12 groups of retiree benefits to NC

1: Increase in local sales and collection of sales taxes

2: Enhancement of local property tax base

3: Increase in local capital pool

4: Increase in community jobs

5: Increase in incomes and expenditures

6: Stabilization of business cycle

7: Increase in volunteer services

8: Limited need for community supported services

9: Stimulation of the economic sectors

10: Stimulation of additional in-migration

11: Increase in new home construction

12: Environmental friendly growth

Many retirees and their families volunteer their services to a broad range of civic and religious organizations. This chapter shows that retirees contribute importantly to the local economy thereby generating multiplier effects for the rest of the region and the state.

Increase in Local Sales and Sales Taxes

As cited below, studies have shown the retirees who migrate into an area, particularly a rural area, typically spend more than local residents for goods and services and, thus, contribute importantly to local sales and sales taxes.

A Florida study of persons age 50 and over found that these residents had nearly twice the income, spent twice as much, and paid more in sales and use taxes than those under age 50; overall, the state reaped a $1.42 billion economic benefit from its aged 50+ residents ***(White, J., 2002)***.

Enhancement of Local Property Tax Base

Across the US, older residents are more likely than the average resident to own substantial equity in their homes. The median home equity nationwide in 2000 is about $41,500, but the home equity median for those 65 and older is over double the national median at $85,500 ***(US Census Bureau, 2003)***. Nationally, senior houses are valued at 20 percent above the average US home and 80% of their homes are mortgage free *(Chestnutt, et. al., 1993)*.

In NC, 86% of those in the 65 to 74 age group own their own homes compared with 79% of those in the 45 to 64 age group *(NC Department of Health and Human Services, 2007)*.

As a result of greater home ownership, more seniors pay real estate taxes. Because of greater home values, seniors typically pay more in real estate taxes than their younger counterparts.

Finally, because many seniors own their home mortgage free, they have increased incomes available to purchase local goods and services, and to pay local sales taxes.

Increase in Local Capital Pool

Walters *(2002)* found that wealth accumulation and transfer by retirees has a greater impact on the local economy than retiree income expenditures.

The College of Business, South Carolina University *(1995)* indicates that Henderson County North Carolina, through its retirement attraction programs, now has the highest rate of bank deposits per capita in the nation. Chestnutt, et. al. *(1993)* amplify the Henderson experience as follows: "Among significant tangible results is an increase in bank deposits from $16 million in 1961 to $465 million in 1990. Retirees are estimated to account for 60 percent of these deposits."

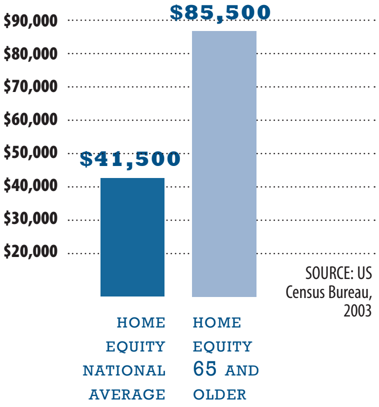
Thus, when retirees locate in a given community, they usually bring with them appreciable financial assets which serve to benefit the banking and finance community, and,

TABLE 1-1

Home Equity and Value

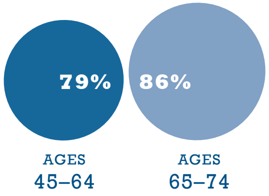
NATIONALLY, SENIOR HOUSES AVERAGE MORE HOME EQUITY AND HIGHER VALUE THAN THE AVERAGE HOME

National equity in 2002



SOURCE: US Census Bureau, 2003

Rate of home ownership in NC by age group



SOURCE: NC Dept. of Health and Human Services, 2007 ultimately, the whole community as loans and other financial transactions expand.

Increase in Community Jobs

Several studies have estimated the effects of in-migrating retirees on local job creation. As retirees spend in the local economy, jobs are generated. Reeder *(1998)* summarizes some of the job impacts from these studies as follows:

- **FLORIDA STUDY:** Found it took 2.5 retirees to create one job
- **APPALACHIA STUDY:** Found that it took 2.2 retirees to create one job in both Virginia and NC but that it took 3.4 retirees to create a job in West Virginia and Kentucky. (This difference was mainly due to higher incomes of retirees in VA and NC.)
- **WESTERN NC STUDY:** Found that it took less than one retiree to create a job.

A Maryland study of losses due to out-migration of retirees found that each elderly household leaving Maryland cost the state the loss of half a job *(Task Force Report, 2006)*.

A Wisconsin study by Shields, et. al. *(1999)* compared low income elderly households (under $20,000/year) to high income elderly households (over $50,000/year). This study found that high income elderly households created jobs at a much higher rate than low-income retiree households.

Increase in Incomes and Expenditures

A number of studies reported substantial increases in incomes and expenditures associated with senior households.

In a study entitled, “Gray Gold”, presented as part of the South Carolina White House Conference on Aging, Warren *(2005)* reports the following results of Florida, Louisiana, and Arizona studies:

- **FLORIDA:** Retirement-age residents had per capita incomes that were 114% of the 18-55 year old residents.
- **LOUISIANA:** Retirement-age residents with per capita incomes that were 127% of 18-55 year old incomes.
- **ARIZONA:** Retirement-age residents having 120% of the 16-55 year olds per capita incomes.

This same study by Warren reports the following expenditure comparisons:

- **FLORIDA:** Retirement-age residents are 28% of the state population, but account for 48% of consumer spending.
- **LOUISIANA:** Retirement-age residents are 20% of state population but account for 38% of consumer spending.
- **ARIZONA:** Retirement-age residents are 21% of state population but account for 34% of consumer spending.

IN-MIGRATING RETIREES GENERATE COMMUNITY JOBS AS THEY SPEND IN THE LOCAL ECONOMY

Stabilization of Business Cycle

The Florida economy, based in large part on the incomes of retirees, is considered to be primarily recession proof. Retiree income from pensions, social security, and other sources arrives on a regular basis regardless of the "ups" and "downs" of the business cycle.

NC, also, is one of the leading retiree in-migration states in the country; in the 1995-2000 period, NC ranked 6th among the states in net positive migration (in-migration less out-migration) for the 65-74 age group and 7th for both the 55-64 age group and the 75-84 group *(Task Force Report, Maryland, 2006)*. This influx of retirees helps to immunize the NC economy from negative effects of the business cycle.

Increase in Volunteer Services

A few studies mention the volunteer activities of retirees but there is little research as to how much of what kind of volunteer work is contributed by retirees. Our study will break that barrier since we have incorporated a wide array of volunteer activities into the retiree survey.

Many retirees, particularly the governmental retirees in our study, bring with them a broad range of skills that have applications to local needs as will be shown in this study.

Limited Need for Community Supported Services

The above-referenced Wisconsin study of low and high income in-migrants

(Shields, et. al., 1999) provides estimates of local government expenditures for all publicly provided services.

The study found that both low and high income retirees **(DEFINED IN THE JOBS SECTION, PAGE 18)** increase local government expenditures in the short run, but in the long run the models predict that revenues will increase more than expenditures for both retiree groups, as follows:

- **LOW INCOME RETIREES:** Expenditures increase by $.5 million but revenues increase by nearly $1.1 million.
- **HIGH INCOME RETIREES:** Expenditures increase by nearly $1.3 million but revenues increase by about $2.3 million.

Aggregate changes in property values are the principal source of the increase.

The study also shows the both high and low income retirees do not add to local education expenditures since neither group has school-age children.

Another Wisconsin study *(Shields, et. al., 2001)* compared the fiscal impacts of older versus younger families (with children). The study found that the older households place fewer demands on local government expenditures while generating significant government revenues. Younger households significantly impact local school expenditures.

Skelley *(2004)* stated some major reasons for retirees' limited use of community service resources as follows: "Economic stimulation occurs with little strain placed on social services (affluent retirees don't need them), criminal justice (retirees tend to be law abiding'), or schools (they don't have school-age children)."

Stimulation of the Economic Sectors

Studies indicate that retiree in-migrants stimulate local economic sectors including entertainment, transportation, health services, housing, banking, financial services, insurance, utilities, household goods, and food. Reeder *(1998)* indicates that retiree attraction creates a mix of jobs, ranging from highly skilled medical jobs to unskilled retail jobs, but most of these jobs tend to be created in low-skilled occupations. Thus, he believes that retiree attraction may be most effective in areas with high concentration of poverty, working poor, unemployed youth; it can be a valuable aid to counties needing off-farm family income.

Stimulation of Additional In-Migration

The above stimulation of the economic sectors enhances the attractiveness of the area to more retirees, thus leading to additional in-migration of retirees.

The 2002 Wisconsin study of low income and high income retiree households used a model to estimate this indirect effect of additional retirees as follows: low income — nine percent additional retirees stimulated by the initial in-migration of retirees; high income — 23% additional retirees stimulated.

Increase in New Home Construction

An Arkansas study of the economic impacts of in-migrating retirees estimated substantial benefits from new home construction *(Miller, et. al., 1998)*. About 20 percent of the incoming retirees are estimated to purchase new construction. Applying the 20 percent to the estimated 6,793 retiree households moving into Arkansas, generated about 1,350 new homes to accommodate retirees. At an average new home price of $100,000, Miller estimated that $135 million was added to the state's economy. This is a one-time benefit for these retirees, but since new retirees are expected to move in every year, these benefits likely continue into the future.

"Baby Boomer" Impact

The impact of the WWII "baby boomers" is well known and should be recognized as one of the retirement driving forces. By 2015, the U.S. will be home to over 45 million households with people from age 51 to 70, compared to 25 million in the previous generation. These boomers will control nearly 60 percent of net wealth and account for 40 percent of consumption. Analysts expect that retirees will act differently than their predecessors. They are interested in remaining in the workforce and will likely be in demand. Many will be interested in self employment; for example, one third of male workers between 51 and 61 are self employed *(Page, 2008)*. Thus, these boomers will likely serve to fuel the retirement trends and their economic impacts, particularly for leading retiree locations such as North Carolina.

North Carolina Benefit Summary

"Older Residents Impact State Economies" *(Fagan, 2006)* provides a summary of some of the economic impacts of net retiree in-migration to North Carolina (and other leading in-migration states.) The number of net older migrants to North Carolina — 50,669 — served to rank NC as the third largest in-migration state behind Florida and Arizona for the 1995-2000 period. Fagan estimated that these in-migrants contributed, conservatively, $633 million in annual household incomes and $6.33 billion in financial assets to the NC economy. This net increase in retirees moving to NC is estimated to be the equivalent of adding 93,735 factory jobs (based on a study showing that one added retiree has the same economic impact as 3.7 factory jobs). Fagan concludes: "Since there is so much money involved, it is difficult to understand why more states are not spending more money to attract and retain these older people."

Environmental Friendly Growth

Chestnutt et. al. *(1993)* characterize the "retirement industry" as follows: "The 'Retirement Industry' boosts the local economy and increases the tax base. Large investments in infrastructure or tax abatements are not required by government.

Retirees do not pollute or destroy the environment."

Benefits of Other State Retirement Systems

Recent retirement pension impact studies in Alabama and Texas found that substantial economic benefits result from retirement systems that provide benefits to retired state employees. The Center for Business and Economic Research, University of Alabama, conducted a similar retirement system study for Alabama *(2007)* and found the following impacts:

- **$1.7 billion** in retiree benefit payments
- **$3.1 billion** in value added to the economy
- **33,915 jobs** added

The Perryman Group conducted a Teacher retirement system study for Texas *(2006)* and provided the following summary of economic impacts:

- **$5.3 billion** in retiree benefit payments
- **$9.9 billion** added to the state economy
- **72,014 in permanent jobs** added

It is clear from these studies that retirement system benefit payments contribute significantly to the economic impact of their communities and states.

RETIREMENT SYSTEM BENEFIT PAYMENTS CONTRIBUTE IMPORTANTLY TO THE ECONOMIC IMPACT OF THEIR COMMUNITIES AND STATES

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MANY STATES BELIEVE THAT INCOME TAX INCENTIVES FOR RETIREES ARE AN IMPORTANT ECONOMIC DEVELOPMENT TOOL AND HAVE ACCORDINGLY LOWERED OR ELIMINATED THEIR INCOME TAXES. RETIREE DECISIONS AS TO WHERE TO LOCATE ARE INFLUENCED BY NATURAL AMENITIES, WEATHER, FRIENDS/RELATIVES, STATE TAXES, AND MANY OTHERS. STUDIES HAVE FOUND THAT STATE INCOME TAXES ARE ONE OF THE MOST IMPORTANT INFLUENCES OF LOCATION CHOICE. HIGH INCOME AND WELL EDUCATED RETIREES, SUCH AS GOVERNMENT RETIREES, ARE THOSE MOST INFLUENCED BY LOWER STATE INCOME TAXES.

{ CHAPTER 2 }

RESPONSE OF RETIREE MIGRATION TO STATE INCOME TAX INCENTIVES

A LITERATURE SUMMARY

Very recent literature contains some sophisticated statistical analyses of the response of retiree migration to state income tax incentives and other fiscal inducements to relocate to particular states. These studies will be summarized in this chapter.

States (and localities) are in constant competition with each other to provide incentives to retirees to locate in their areas. The previous chapter has shown that the benefits of in-migration and retention of retirees have many important dimensions. Recent retirees are considered by many states to be an economic and fiscal bonus because they have above average incomes and property wealth, thus expanding the local economy and tax base, but placing relatively few demands on public services.

But estimating the separate effects of state income tax incentives from the myriad of factors influencing migration location decisions is no easy matter and requires sophisticated statistical models. It is only recently that such models have been fully developed and applied.

How importantly, then, does a reduction, or elimination, of a state income tax

RETIREES ARE CONSIDERED BY MANY STATES TO BE AN ECONOMIC & FISCAL BONUS. THEY EXPAND THE LOCAL ECONOMY WITH THEIR ABOVE AVERAGE INCOMES AND PROPERTY WEALTH BUT PLACE FEW DEMANDS ON PUBLIC SERVICES contribute to encouraging retirees to relocate to that particular state?

Recent literature results help to answer this question.

Retention of retirees is as important as in-migration when it comes to economic impacts. However, there have been no comprehensive studies of retiree retention by a state as the result of state income tax incentives.

Additionally, no studies have been found which specifically focus on government retiree in-migration and retention. However, the studies in this chapter which address the age, income, and educational levels of retirees have implications for government retirees.

Income Tax Role

Of the fiscal variables under control of government, taxes — particularly income taxes — are usually the most easily manipulated since it is possible to provide tax additions or reductions to particular selected groups or to the state as a whole. Higher tax burdens are expected to have a negative effect on the attractiveness of a state.

In-Migration Response to State Income Taxes

A comprehensive statistical study by Syracuse researchers *(Duncombe, et. al., 1999)* found that "persons around retirement age avoid high taxes and housing prices, while they are drawn to areas with relatively high spending on such services as fire, police, and recreation. Amenities such as coastline and warm weather are also valued."

Another sophisticated migration model, this one applied by a Wisconsin study *(Woo, Seokjin, 2003)* was used to estimate the effect of state fiscal policies on retirement migration. The results show that income tax is the most effective fiscal tool for recruiting retirees in North Carolina, California, Arizona, and Pennsylvania. This study also shows that healthy "young old" of age 60 to 65 are significantly influenced by income tax and property tax but that the "normal old" of age 66 to 75, while also being affected by property and income taxes, are also affected by the death tax. Unhealthy retirees, however, are found not to be affected by income, property, and death taxes.

Woo also conducted a comprehensive study two years later in 2005 *(Woo, Seokjin, 2005)*. It shows the expected result: A significant statistical relationship exists between migration and the state income tax, whereby the lower the tax the higher the in-migration.

A Kentucky study *(Coombes and Hoyt, 2006)* examines in-migration to Metropolitan Statistical Analysis (MSA) areas, which are located in more than one state. This study pertains to all migrants, including retirees. In most of these MSAs, one state has a higher income tax than the other; the use of an MSA helps to define a more homogeneous community (compared to use of an entire state). The

A SIGNIFICANT STATISTICAL RELATIONSHIP EXISTS BETWEEN MIGRATION AND THE STATE INCOME TAX, WHEREBY THE LOWER THE TAX THE HIGHER THE IN-MIGRATION

findings are striking: A 10% difference in income tax rates between the two states (in a common MSA) leads to a 3.4% difference in the rate of adjusted gross income (AGI) of in-movers as a fraction of total state AGI; and this difference is, as hypothesized, positive in the direction of the state with the lower income tax.

Richard Vedder *(2003)* conducted several analyses of the relationship between state taxes, including state income taxes, and migration among states; these analyses range from use of simple average differences to more complex analyses using statistical equations to account for differences. For averages, he took the states with the ten highest income taxes and compared them with the states with the ten lowest income taxes.

He found that, during the 1990-99 period, the lowest tax states gained about 2.8 million residents via in-migration from other states; during the same period, the highest tax states lost about 2.2 million residents via out-migration. Using regression equations, he found that tax and population variables account for 46% of the net migration trend during the 1990s and that the individual coefficients for taxes are highly significant. He concludes that just a one percent increase in relative state / local tax burden would result in roughly an 18,000 person reduction in in-migration to a state; thus, in-migration is highly responsive to differences in taxes among states.

DURING THE 1990'S, THE LOWEST TAX STATES GAINED ABOUT 2.8 MILLION RESIDENTS VIA IN-MIGRATION FROM OTHER STATES; DURING THE SAME PERIOD, THE HIGHEST TAX STATES LOST ABOUT 2.2 MILLION RESIDENTS VIA OUT-MIGRATION

In-Migrant Educational Level Response to State Income Taxes

In-migration among states is influenced by the educational levels of in-migrants. In a comprehensive economic study of the impacts of educational levels, Pema *(2005)* found that highly-educated retirees are much more likely to respond to income tax differences among states. Individuals with advanced degrees are twice as likely to in-migrate to states with low taxes compared to college graduates. College graduates are six to nine times more likely to in-migrate to states with low taxes compared to those with high school degrees or some college.

In the survey of government retirees conducted for this study we found that 46% of government retirees achieved a bachelors degree or higher versus 17% for the NC age 65+ population. When combined with the Pema study results, one would expect that government employees, compared to other NC retirees, would likely be more responsive to the incentive provided by the income tax exemption (other influences held constant).

Economic Development Response to State Income Taxes

In addition to migration, the literature shows that economic differences among states are strongly influenced by income tax differentials. Vedder *(2001)* examined the ten states having the highest increase in income tax burden over the 1957 to 1997 period versus the ten states with the lowest income tax burden over this period. The highest income tax growth states had a 191% increase in real income growth versus a 455% increase in real income growth for the lowest income tax states.

In a comparison between Tennessee and its neighbor, Kentucky, for the 1957 to 1997 period, Vedder found that Tennessee never instituted an income tax but that Kentucky increased its income tax in several large increments; by 1997, Kentucky's total tax burden was 25% greater than Tennessee's. (Both states had minimal taxes in 1957, with Kentucky's being five percent lower than Tennessee's.) Real personal income grew over this 40-year period by 333% in Tennessee compared with 232% in Kentucky.

In another two-state comparison, Iowa versus neighboring South Dakota (for the 1967 to 2007 period), total personal income grew 96% in Iowa versus 152% in South Dakota *(Frantz 2008)*. South Dakota has no income tax, but Iowa does.

Implication

This chapter has shown that there is a large and growing body of advanced research directly linking migration, migration-relating-to-education and economic development to the incentives provided by income tax reductions. Studies show that the high levels of educational attainment and income for government retirees places them in the position of responding to the no-income-tax incentive by migrating to the state and thereby making an important long-term economic contribution.

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GOVERNMENT INDUSTRY HAS EXPERIENCED RAPID GROWTH IN NORTH CAROLINA. TODAY IT SURPASSES MANUFACTURING AS OUR LEADING INDUSTRY. GOVERNMENT RETIREE BENEFITS — MILITARY, STATE, LOCAL, AND FEDERAL — HAVE FOLLOWED AND HAVE OFFSET INCOME STAGNATION IN FARMING, TEXTILES, AND FURNITURE. THE GOVERNMENT/RETIREMENT ECONOMIC FUTURE LOOKS STRONG.

{ CHAPTER 3 }

THE NC GOVERNMENT RETIREMENT INDUSTRY SEGMENT

The pension benefits to federal, military, state, and local government retirees comprise an important "industry segment" as this chapter will show. For years, the retirement benefits have steadily increased in parallel with the increased earnings of federal civilian, military, state, and local retirees in NC. It is a little known fact that the "government / government enterprises" industry today represents the largest income industry in NC, having surpassed manufacturing income as the largest industry in the year 2003.

As retirement benefits have progressively increased over time, such benefits have served to take up some of the slack from traditional NC industrial sectors — such as farming, textiles, and furniture — that have lagged behind the rest of the economy. This chapter shows that government retirement income has grown as these sectors have faltered so that, today, the magnitude of these benefits far exceeds the earnings in each of these traditional sectors. For balance, we also compared government retirement benefits with earnings from some industries believed to be economically stronger than farming, textiles and furniture —e.g., computers and chemical manufacturing.

GOVERNMENT RETIREMENT BENEFITS NOW EXCEED THE TOTAL EARNINGS INCOME OF THREE TRADITIONAL NC INDUSTRIES: TEXTILE, FURNITURE AND RELATED PRODUCTS, AND FARMS

Retirement benefits outpaced each of these industries from 1995 through 2005.

The Government and Government Enterprises Industry

In 1990, the NC "government and government enterprises" industry provided earnings to its employees of about $17.0 billion. In that same year, the NC manufacturing industry provided earnings of about $22.6 billion. However, by 2007, earnings in the government industry had increased by 174% to $46.5 billion, whereas, earnings in the manufacturing industry had only increased by about 50% to $34.0 billion. Thus, today, the once-dominant manufacturing sector in NC is now eclipsed by the government industry by $12.5 billion. In 2007, government earnings comprise about 20% of all earnings in NC.

The breakdown of the $46.5 billion 2007 earnings in the government and government enterprises industry by level and by type of government is at left.

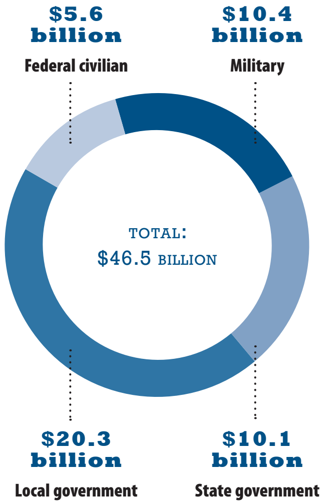
Government Retirement Benefits

The government earnings industry, described above, is for active employees, and as its size increases, it would be expected that the number and benefits to government retirees would also increase. This section shows how benefits for

TABLE 3-1

2007 Earnings

BREAKDOWN OF EARNINGS IN GOVERNMENT AND GOVERNMENT ENTERPRISES INDUSTRY



SOURCE: Regional Economic Accounts of the Bureau of Economic Analysis, US Department of Commerce.

federal civilian, military, state, and local government retirees have increased from 1995 to 2007. The government retirement industry segment has become a major contributor to NC incomes as this and the following section will show.

TABLE 3-2 shows Federal civilian, military, state, and local retirement benefits in North Carolina for 1995, 2000, 2005, and 2007. This table indicates that total benefits for state retirees are appreciably greater in 2007 than benefits for the other three — federal civilian, military, and local. The greatest percentage growth in retirement benefits from 1995 to 2007 is for local government retirees (372%). Overall, the growth rate of all four government retiree groups is 141% from 1995 to 2007. The 2007 total government benefits of $6.829 billion establishes the government retirement segment as a major economic force in North Carolina.

As another indicator of NC government benefits, the total federal civilian and military benefits are compared to the total United States civilian and military benefits. In 1995, NC federal (civilian and military) benefits were 2.74% of the total US federal benefits. However, by 2007 the NC federal benefits had grown to 3.29% of the total US federal benefits. This may appear to be a small percentage increase; however, if we apply the 1995 benefit percentage of 2.74% to the 2007 total US benefits, the dollar amount of the NC federal benefit would be $543 million less than it actually is in 2007. This indicates that NC is gradually increasing its share of federal benefits over time; i.e.,

TABLE 3-2

North Carolina Federal Civilian, Military, State and Local Retirement Benefits in 1995, 2000, and 2005

$ IN BILLIONS

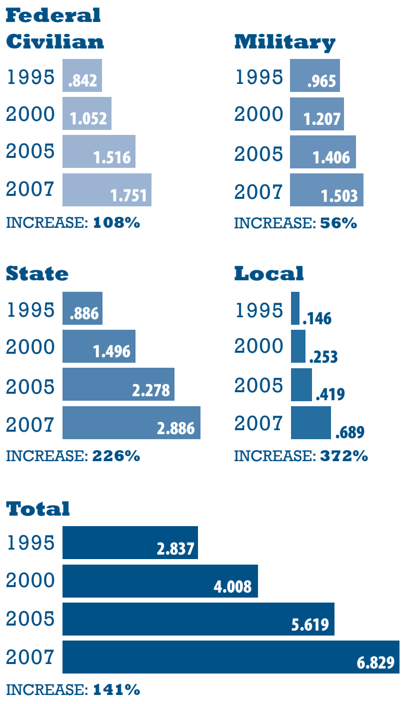
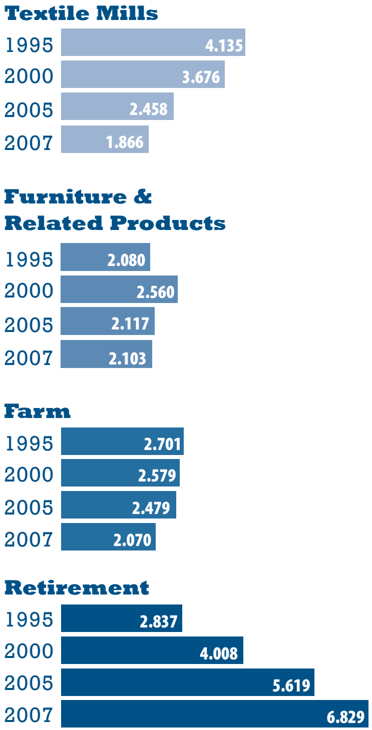


TABLE 3-3

Earnings from Traditional Industries Versus Retirement Benefis

$ IN BILLIONS



its federal retiree sector is growing relative to that sector in the rest of the country.

Government Retirement Benefits Relative to Earnings from North Carolina Industries

Traditional economic sectors in NC include textiles, furniture and related products, and farm earnings. However, earnings from employment in these traditional sectors has generally declined, or remained about the same, over time. For comparison, income from government retirement benefits has consistently marched forward over time as shown in TABLE 3-3. Thus, government retirement has helped to replace part of the income lost to NC in these traditional sectors.

TABLE 3-3 shows the 1995, 2000, 2005, and 2007 earnings figures for the textiles, furniture and related products and farm earnings industries.

In 1995, as shown in TABLE 3-3, the government retirement benefits of $2.839 billion were slightly above furniture and related products earnings and farm earnings, but below textile mill earnings. However, by 2005, the government retirement benefits of $5.619 billion had grown to be at least 50% larger than the earnings income for each of these traditional industries. Government retirement benefits now exceed the total earnings income of all three traditional NC industries *(2007)*.

For balance, it is useful to select for comparison two other industries that are generally viewed as growth industries. We selected computer and electronic product manufacturing and chemical manufacturing. **TABLE 3-4** shows the earnings in each of these industries in 1995, 2000, 2005, and 2007.

Computer earnings, chemical earnings, and government retirement benefits all started about even in 1995 — $2.7 to 2.8 billion dollars — but, by 2007, retirement benefits have expanded to $6.8 billion, leaving the other two behind at $4.7 billion for computers and $4.2 billion for chemicals.

Thus, the government retirement segment has become a major player as a source of growth in NC. For federal civilian and military employees, this income represents a major influx of outside dollars into the state, dollars needed to offset the stagnation of traditional industries. The "government and government enterprises" sector is expected to grow in the future; growth in the government retiree benefits segment will likely follow. Military developments in NC serve to fuel this growth as summarized in the next section.

Impetus to Future Retiree Benefit Growth

A principal impetus to future retiree benefit growth is quite obvious from the data presented in this chapter; as the Government industry grows so grows

TABLE 3-4

Earnings from Growth Industries in NC $ IN BILLIONS

the retiree benefits. Earnings in the Government sector increased by 79% from 1995 through 2005; benefits from government retirement increased by 98% over the same period. Local and state government benefits started from a very low base in 1995 so that the percentage increase is influenced by the base period. In other words, both earnings and benefits moved rapidly together during this period. Also, the NC government industry outstripped the earnings size and growth for all of NC manufacturing during this period. Looking to the future, this recent rapid growth in government industry earnings can only imply that future retiree benefits will continue to expand as those presently working decide to retire.

North Carolina has the nation's fourth largest active duty military population, distributed across seven military installations and 14 Coast Guard facilities ***(North Carolina's Military Footprint, 2008)***. About 8 percent of the total state employment is attributed to military. In 2007, military activities contributed $23.4 billion to the state's economy; by 2013, this is expected to expand by an additional $2.9 billion as the military implements recommendations of the BRAC Commission. In particular, Fort Bragg is in the process of becoming the new headquarters of the US Army Forces Command and the US Army Reserve Command (moving from Atlanta), a change that will add employment for 4,024 new troops, about 2,146 new civilian employees, and 1,942 new private contractors. The Marine

Corps plans to add 11,477 Marines, Navy, and civilian workers by 2013. An additional $3.8 billion in military construction will occur in the Eastern Region by 2013.

These major economic developments will likely be accompanied by a substantial increase in the number of military related retirements in North Carolina if retirement benefits are exempted from state income taxes. Studies have shown that when military organizations move, the personnel are more likely to retire in the destination area (NC) than in the base closing area (Atlanta). Further, many of these retirees will be personnel in high ranks with substantial retirement benefits. These are reasons for believing that the future government retirement benefits will exceed past trends.

Implication

The government sector has shown dramatic and consistent growth in recent years. This has been accompanied by an approximate doubling of retirement benefits from 1995 to 2007. This increase in government retirement benefits has helped to offset manufacturing losses in some sectors and erratic growth in others. In size alone, the government sector has surpassed manufacturing as the major economic sector in NC. Future expected military and government growth, plus the accompanying retiree growth, serves to underpin the strength of this sector. Thus, the government sector deserves consideration as a major growth leader in NC; such growth foretells increases in the number and incomes of government employees retiring to NC and bringing with them major economic benefits.

WHEN THIS STUDY WAS INITIATED THERE WAS A PAUCITY OF ECONOMIC AND DEMOGRAPHIC INFORMATION ON MILITARY, FEDERAL, STATE, AND LOCAL RETIREES IN NORTH CAROLINA. TO FILL THIS GAP, A MAJOR SURVEY OF RETIREES WAS INITIATED. OVER 9,000 GOVERNMENT RETIREES WERE RANDOMLY SELECTED TO COMPLETE A COMPLEX ELEVEN-PAGE ECONOMIC SURVEY. THIS CHAPTER HIGHLIGHTS SOME OF THE RETIREE EDUCATION, INCOME, VOLUNTEER, AND TAX FINDINGS OF THIS SURVEY.

{ CHAPTER 4 }

SURVEY RESULTS WITH STATE AND NATIONAL COMPARISONS

This chapter provides survey results that summarize the demographic and economic characteristics of government retirees from the government retiree survey **(SEE APPENDIX)**. Chapter 4 also presents national and state data for comparison with these results thus providing the context for full understanding of the survey results.

Geographic Coverage of Survey

It is very important to examine the geographic coverage of the survey respondents. Are government retirees widely distributed across the state or are they narrowly limited to certain areas? Are federal, state, and local retirees widely or narrowly distributed?

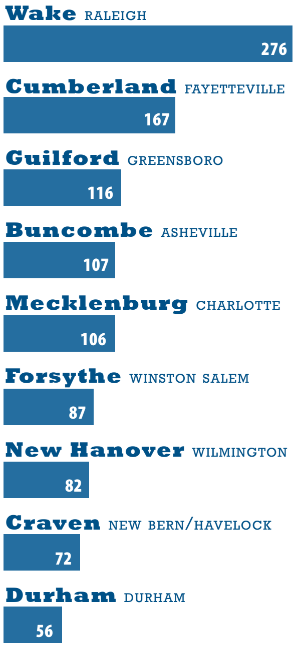
County Coverage of Survey Respondents

- All 100 counties are represented in government retiree residential locations.
- Federal Civilian retirees are located in 77 of the 100 counties
- State government retirees are located in 76 counties
- Local government retirees are located in 72 counties
- Military retirees are in 79 counties

TABLE 4-1

County/City Coverage of Survey

COUNTIES THAT CONTAIN THE LARGEST CITIES IN NC



TOTAL RESPONSE FROM ABOVE COUNTIES: 1,069

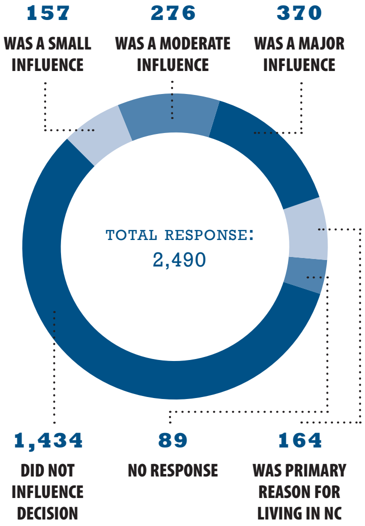
TOTAL RESPONSE FROM ENTIRE SURVEY: 2,707

TABLE 4-2

Responses From Retirees Meeting Bailey Criteria

SURVEY QUESTION

"HOW MUCH DID THE NORTH CAROLINA STATE INCOME TAX EXEMPTION PROVIDED BY THE BAILEY SETTLEMENT INFLUENCE YOUR DECISION TO CONTINUE TO RESIDE IN NORTH CAROLINA?"



City Coverage

Together, the counties which contain the largest cities in NC include the following:

- Mecklenburg (Charlotte)
- Wake (Raleigh)
- Guilford (Greensboro)
- Durham (Durham)
- Forsythe (Winston Salem)
- Cumberland (Fayetteville)
- New Hanover (Wilmington)
- Buncombe (Asheville)
- Craven (New Bern / Havelock)

Together, these counties accounted for 1,069 of the 2,707 useful responses to our survey. Wake County, with 276 responses (148 from state government retirees) was the largest. Cumberland County with 167 responses (100 military and 45 federal civilian) was second. These counties were followed by Guilford (116), Buncombe (107), Mecklenburg (106), Forsythe (87), New Hanover (82), Craven (72), and Durham (56).

Dispersion

The above figures represent a wide dispersion of our survey responses across NC. The fact that all counties have at least one government employee surveyed and the fact that only 1,069 of the surveys come from counties with the largest cities leaving 1,638 to come from smaller towns and rural areas leads us to believe that governmental retirees are widespread across the state and that the survey captured this state-wide dispersion.

Bailey Settlement Influence

Of those government retirees surveyed who resided in NC, 94% indicated that they were eligible for state tax exemption under the Bailey Settlement and six percent indicated that they did not meet the eligibility requirement.

Of the 94% meeting the Bailey criteria, the following is the breakdown of the 2,490 responses to the question: “How much did the North Carolina state income tax exemption provided by the Bailey Settlement influence your decision to continue to reside in North Carolina?”

These responses were expected since, as **CHAPTER 2** shows, there are a large number of factors influencing retiree location decisions and state income taxes are a key influence. As shown in **TABLE 4-2**, the categories, “the primary reason for continuing to reside in North Carolina” and “a major influence” in the decision to continue to reside in NC comprise about 21% of the responses. Nine hundred and sixty seven respondents — 39% — indicated that it influenced them in some fashion.

Six percent said they did not meet the Bailey criteria. Their responses to the question as to how it would influence their location decision if they were eligible

TABLE 4-3

Responses From Retirees Not Meeting Bailey Criteria

HOW THE SIX PERCENT WHO SAID THEY DID NOT MEET THE CRITERIA RESPONDED TO THE QUESTION AS TO HOW IT WOULD INFLUENCE THEIR LOCATION DECISION IF THEY WERE ELIGIBLE FOR THE INCOME TAX EXEMPTION

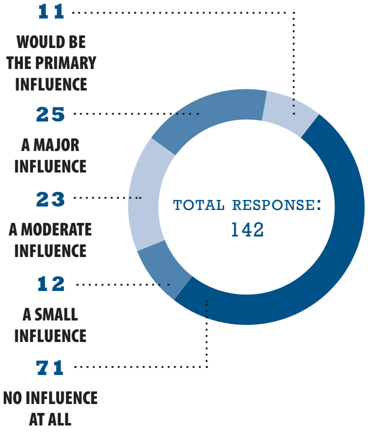
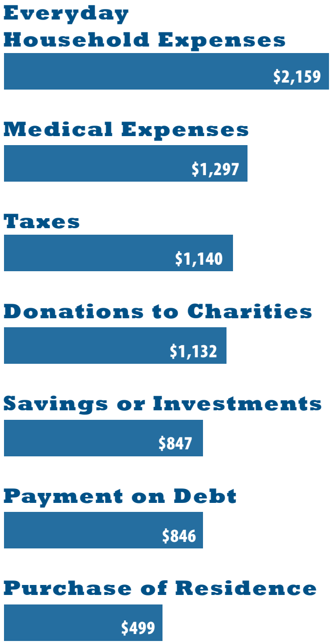


TABLE 4-4

Additional Income

EXPENDITURES REPORTED FROM NOT HAVING TO PAY STATE INCOME TAX (IN ORDER OF IMPORTANCE)



for the income tax exemption are on the previous page.

To this question, the respondents were a little more positive as to the residential influence. Together, the last two categories — major influence and primary influence — account for 25% of the responses. Half of the 142 responses indicated that it influenced them in some manner.

For those covered by the Bailey Settlement, the chart at left indicates the types of expenditures that they reported as uses of the additional income from not having to pay state income taxes (in order of importance).

Respondents were asked to check all that apply; thus, these numbers greatly exceed the number of respondents. The ranking of medical and taxes as numbers 2 and 3 indicates that, after retirement, these are still a major part of household expenses. Number 4 in rank, donations to charities, reflects retirees' community and religious contributions; this is reinforced in Part G of the survey which summarizes volunteer contributions. Number 5, savings or investments, indicates that retirees have a continuing involvement in asset building.

Age of Respondents

The distribution of respondents by retiree age group is on the following page.

These data shows that the survey elicited responses from a broad range of age groups, providing credibility to the selection methodology. Generally, the distribution of number of respondents by age group is as expected. For example, 71% of the respondents fall in the range from 60 to 79 years of age.

The following text table compares the ages of the survey respondents to the ages of the NC population, age 65 and over:

TABLE 4-5

Comparison of the ages of survey respondents to the ages of the NC population, age 65 and over

	Government Retirees		NC Population (US Census)	
Age Group	**Number**	**% of total**	**Number**	**% of total**
65-74	1,039	55%	557,502	54%
75-84	693	37%	353,047	34%
85+	148	8%	124,835	12%

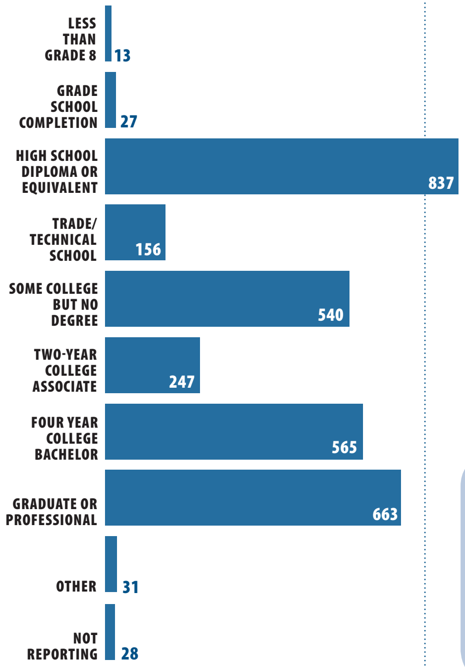
This table shows that the government retiree respondents to this survey closely pattern the age percentages of the NC Population; the percents for the 65-74 age group are 55% for respondents versus 54% for the population; and the other age categories follow closely as well.

In 2005, there were about 270,240 federal, state, local, and military retirees in

TABLE 4-6

Education of Respondents

EDUCATION OF GOVERNMENT RETIREES



NC. In the same year, there were 1,054,098 persons age 65 and over in NC *(NC Aging Services Plan, 2007)*. Of the government retirees, 66 percent were age 65 and over, that times 270,240 total retirees, gives 178,358 retirees over age 65. Thus, about 17% of those residents over age 65 in NC (178,358 divided by 1,054,098) were governmental retirees.

Education of Respondents

In education, government retirees have exceeded educational levels far above the average NC individual of the same age, as this section will show.

The survey results on education are shown at left.

The NC Aging Services Plan of the NC Department of Health and Human Services (2007) provides statistics showing that the highest level of education completed for the 65+ age group in NC in 2005 are as follows:

- Less than high school graduate: **33%**
- High school graduate: **31%**
- Some college: **19%**
- Bachelors or higher: **17%**

When we convert the above survey results into the NC categories, we get the following percentages for educational attainment by governmental retirees:

- Less than high school graduate: **2%**
- High school graduate: **22%**
- Some college: **30%**
- Bachelors or higher: **46%**

The first and last categories serve to illustrate the greater educational attainment for government retirees versus the NC 65+ population. Only 2% of governmental retirees are in the less than high school graduate category but 33% of the NC population of 65+ falls in this category. For the top bracket, 46% of government retirees achieved a bachelors degree or higher versus only 17% or the NC population. These higher educational levels for government retirees underpin many of the economic differences between retirees and the population in terms of income, expenditures, and other factors.

Retiree Pension and Other Income

Government retirees rely on their pensions as a major source of income, whereas other retirees rely primarily on Social Security. **TABLES 4-2** and **4-3** show the break-

TABLE 4-7

Retirees' Volunteer Activities in 2006

1: Governmental/civic/organization (board of education, county commissioners, recreation committee)

2: Community Club (Lions, Rotary, Kiwanis, Jaycees, American Legion)

3: Churches/Religious Organizations

4: Schools

5: Senior Centers

6: Health Organizations

7: Environmental Organizations

8: Habitat for Humanity

9: Meals on Wheels

10: Homeowners Associations/ Retirement Associations

11: Other Organizations

downs for major sources of income for **1)** NC households with government pensions (from our survey) for 2006 versus **2)** US households with the head of the household age 65+ for 2006. *(US percentages from Social Security report "Fast Facts and Figures about Social Security," 2007)*.

TABLE 4-8

Income sources for NC households with pensions (2006)

Income source	Income/HH	% of total income
Federal, state, local or military pension	$31,679	54%
Social Security	$9,995	17%
Paid Employment	$8,065	14%
Private sector pension	$4,156	7%
Self Employment	$2,086	4%
Other	$2,711	5%

TABLE 4-9

US households aged 65+ (2006)

Income source	% of total income
Social Security	37%
Earnings	28%
Asset Income	13%
Private Pensions	10%
Government Employee Pensions	9%
Other	3%

For those households in our government retiree survey, **TABLE 4-2** shows $58,692 as the average income per household for 2006. The Census Bureau reports that the average 2004 household income for all households in the US is $60,528 *(US Census Bureau, 2004 Economic Survey)*; thus, the average household income of our survey respondents is close to the average income of all US households.

Volunteer and Special Skills

Our survey requested that respondents provide an extensive listing of their volunteer work for organizations plus special skills that many retirees bring to their community. **(SEE APPENDIX.)** We also requested that the respondents provide estimates of hours devoted to each activity. There is limited data in the literature in this area.

The Health and Retirement Study of the US Department of Health and Human Services surveyed people at the national level in 1998 as to the time that they spent in volunteer activities (over past 2 years). More respondents in the 60 to 69 age group were engaged in volunteer activities compared to other age groups — about one in three were involved. The 60 to 69 age group reported an average of about 106 hours of volunteer work over the two-year period. For those in older age groups, the hours of volunteer work per person increased but the percent of individuals doing volunteer work decreased. Overall, this study showed that vol-

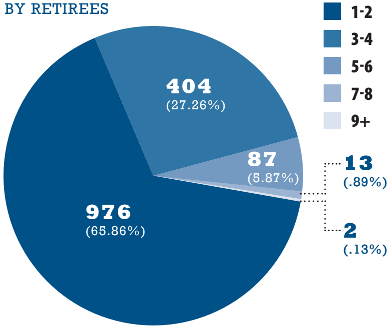
ONE IN THREE RESPONDENTS IN THE 60 TO 69 AGE GROUP WERE ENGAGED IN VOLUNTEER ACTIVITIES,MORE THAN ANY OTHER AGE GROUP

TABLE 4-10

Volunteer Activities From Our Survey

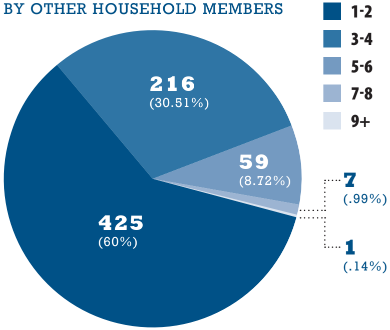
NUMBER OF REPORTED ACTIVITIES

BY RETIREES



TOTAL REPORTED:
1,482

BY OTHER HOUSEHOLD MEMBERS



TOTAL REPORTED:
708

unteer work is an important contribution of seniors of retirement age.

Data on cash contributions for charitable giving were not included in our survey. One study used US Bureau of Labor expenditure data to show that cash contributions as a percent of income were highest in the South (compared to the Northeast, Midwest, and West).

This study showed that an average consumer unit in the South contributed $1,078 annually to charitable giving (using data averaged over the 1987 — 2005 period). ***(Source: Empty Tomb, Incorporated, 2007 Analysis of US Bureau of Labor Statistics Consumer Expenditure Survey, 2005)***

Volunteer Activities from our Survey

The volunteer activities reported by respondents ranged across many organizations including government/civic organizations, community clubs, religious organizations, schools, and others.

RETIREES

1649 of the 2707 retiree respondents, or 61%, reported that they participated in volunteer activities in their communities.

- 976 reported 1 or 2 activities
- 404 reported 3 or 4 activities
- 87 reported 5 or 6 activities

- 13 reported 7 or 8 activities
- 2 reported 9 + activities

These individuals reported that they spent 51,481 hours doing volunteer activities. This represents an average of 31 hours volunteer service per respondent for 2006.

OTHER HOUSEHOLD MEMBERS

708 other household members in the 2707 retiree households, or 26%, reported that they participated in volunteer activities in their communities

- 425 reported 1 or 2 activities
- 216 reported 3 or 4 activities
- 59 reported 5 or 6 activities
- 7 reported 7 or 8 activities
- 1 reported 9 + activities

These individuals in the retiree household reported spending 20,664 hours in volunteer activities. This represents an average of 29 hours volunteer service per respondent reporting such service.

Special Skills

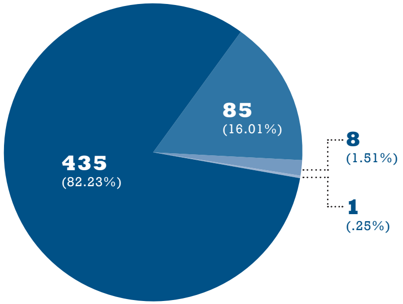
Voluntary skills of respondents included accounting/finance, construction, recreation, teaching, and many others.

TABLE 4-11

Special Skills From Our Survey

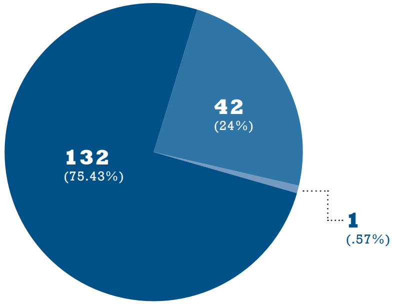
NUMBER OF REPORTED ACTIVITIES

BY RETIREE SPECIAL SKILLS



TOTAL REPORTED:
529

BY HOUSEHOLD SPECIAL SKILLS



TOTAL REPORTED:
175

OTHER MEMBERS IN RETIREES' HOUSEHOLDS REPORTED VOLUNTEERING IN THEIR COMMUNITIES — 3,718 HOURS CONTRIBUTED IN 2006

RETIREES

529 retirees (20%) reported that they contributed special skills to their communities. The breakdown of these skills is as follows:

- ■ 435 reported 1 or 2 special skills
- ■ 85 reported 3 or 4 special skills
- ■ 8 reported 5 or 6 special skills
- ■ 1 reported 7 or 8 special skills

These retirees reported spending 13,197 hours applying their special community skills in 2006, for an average of 25 hours per retiree reporting such service.

OTHER HOUSEHOLD MEMBERS

175 other members of the retiree household reported contributing special skills to their communities, as follows:

- ■ 132 reported 1 or 2 special skills
- ■ 42 reported 3 or 4 skills
- ■ 1 reported 5 or 6 skills

These other members of the retiree household spent 3,718 hours contributing their skills in 2006, for an average of 21 hours per household member reporting such activity.

Summary of Volunteer / Skill Activities

About two thirds of the respondents indicated that they contributed volunteer and / or skill activities to their communities. These retirees and their households reported contributing 6,605 activities to their communities, for an average of about 4 activities for every contributing member. These households also reported contributing 89,060 hours of service to these organizations — which averages to be 54 hours per year for every contributing retiree household. If an hourly value is placed upon this volunteer / skill service of, say, about $15 per hour, we get a total value of $1,335,900 for the 89,060 hours of community service.

State Income Taxes

Despite the fact that most of the survey respondents qualified for income tax exemptions on both their government pensions under the Bailey settlement and their Social Security payments, 59% reported in the survey that they paid an average of $1,400 in state income taxes to NC in 2006. Thus, government retiree households do pay appreciable state income taxes — $826 on the average ($1,400 x 59%).

RETIREE HOUSEHOLDS CONTRIBUTED 89,060 HOURS OF VOLUNTEER SERVICE IN 2006. IF AN HOURLY VALUE OF $15 IS PLACED UPON THIS SERVICE, WE GET A TOTAL VALUE OF $1,335,900 IN COMMUNITY SERVICE

Real Estate Ownership and Taxes

Ninety four percent of the respondents in our survey indicated that they owned their residences. In the overall NC population, only 83% of those age 65+ own their residences. *(Source: "NC State Aging Services Plan, 2007-2011," NC Department of Health and Human Services, 2007.)*

Our survey shows that government retirees paid an average of $1,675 in NC real estate taxes in 2006 on their primary residences. Further, the survey finds that 15% of these retirees own a second residence in NC and that they averaged $1,218 in real estate taxes on these second homes.

Motor Vehicle Taxes

Ninety two percent of the respondents in our survey stated that they owned motor vehicles. They paid an average of $358 in property taxes on their vehicles in 2006. In the general population of NC, 88.5% reported ownership of vehicles.

(Source: "NC State Aging Services Plan, 2007-2011," NC Department of Health and Human Services, 2007)

Sales Taxes

The survey did not include sales tax information since it was considered very difficult for the respondents to provide accurately. In the following chapter we calculate sales taxes as an offset to state income taxes for those retirees who respond to the income tax exemption incentive.

THIS CHAPTER INTEGRATES THE RESULTS OF PRECEDING CHAPTERS INTO A BENEFIT/COST FRAMEWORK. OVERALL, BENEFITS EXCEED STATE REVENUE LOSSES BY A RATIO OF 2.5 TO 1.0 — PROVIDING STRONG SUPPORT FOR THE ENACTMENT OF AN INCOME TAX EXEMPTION.

{ CHAPTER 5 }

SUMMARY OF ECONOMIC IMPACTS

This chapter summarizes the economic, fiscal, and community impacts of a NC income tax exemption for government retirees. As such, it provides a summary of the full report.

Multiplier Results Showing Statewide Economic Benefits

This section provides estimates for the following: **1)** the total state revenues lost through an income tax exemption for all government retirees in NC in a recent year (2007); **2)** the expected income expenditures that depict how these increased incomes from the tax exemption are likely to be spent by retirees; **3)** application of the widely-used and generally accepted IMPLAN model to estimate the impacts of these increased retiree expenditures thereby generating increased NC Gross Domestic Product (GDP), increased NC incomes, and increased NC full-time job equivalents.

The Bailey settlement has been in effect since 2000, so there is already a "track record" of benefits to qualified government retirees from an income tax exemption. However, that track record is a qualified one since only those government retirees with five or more years of creditable service as of August 12, 1989 are eligible for the exemption. In recent years, there is an increasing number of retirees not eligible under this criteria; our survey found that 6% of survey respondents did not meet the Bailey criteria.

Our methodology is to superimpose a full, unqualified income tax exemption for government retirees; then we estimate its economic impact on the NC economy in 2007 using the IMPLAN model. Data on retiree numbers, retiree pensions, and retiree household incomes are available from our survey and other sources so that much of the data for this income tax analysis are available. These data are combined with federal government information on consumer expenditures.

In this analysis, we are interested only in the total impact of an income tax exemption to government retirees without qualification. Thus, we began our economic impact analysis with an estimate of the total NC revenue lost through an income tax exemption and that figure, derived from retiree associations and state sources, is $245.5 million for 2007. This figure represents both **1)** the direct cost — i.e., revenue loss — to the state of the tax exemption and **2)** the direct benefit to the retirees in increased income.

It might be argued that the Bailey tax exemption (the major component of the income tax direct benefit which we are estimating) is already in effect in NC and might affect the GDP data in the following analysis. However, the $245.5 million direct benefit figure for 2007 is a little less than one tenth of one percent of the North Carolina GDP, so that the retiree income tax exemption analysis, which follows, is essentially independent of the state's economy and, thus, does not "taint" the results.

The multiplier analysis employs data from our survey and other sources to generate statewide economic benefits associated with an income tax exemption for government employees for the year 2007.

The IMPLAN analysis of the impacts of a tax reduction is based upon the current expenditures of a population group most closely reflecting the consumer consumption patterns of governmental retirees. (Specific information on the consumption patterns of government retirees was not available). For consumer expenditure patterns, national data were used from the Consumer Expenditure Survey ***(Bureau of Labor Statistics, US Department of Labor)***, to represent US households with household head age 65+ and having an income range that brackets the average household income from our survey ($50,000 to $69,999).

Data on household income from our survey and other sources were used to estimate the amount of state income tax that would likely have been paid by the average government retiree household had that household been required to pay state income taxes on the government retirement pension. This income tax amount, $828 per retiree household, represents both the per-retiree revenue loss to the state and the per-retiree increased income expenditure. This

THE IMPLAN MODEL IS USED TO ESTIMATE THE IMPACTS OF AN INCOME TAX EXEMPTION UPON THE NC ECONOMY

is multiplied by the number of NC government retirees, to get a total revenue loss / increased expenditure of $245.5 million for 2007. (Government retirees with pensions of $4,000 or less are dropped from the analysis since these pensions are eligible for tax exemption under existing statute.) Next, the Consumer Expenditure Survey expenditure percentages for each of the 37 categories of expenditure are applied. For example, "food and beverages" is 6.79% of household expenditures and "food away from home" is 5.30%; each of these is multiplied by the $245.5 million to obtain detailed expenditure amounts for NC government retirees.

This increased consumption data for retirees were then run through The NC IMPLAN (IMpact Analysis for PLANing) model. This model divides the economy into sectors, defined by the good or service produced, in which the outputs of one sector are inputs of another. The IMPLAN model contains 509 sectors and reflects the existing structure of the NC economy using data from the US Department of Labor, the US Bureau of the Census, and The Bureau of Economic Analysis.

The application of IMPLAN to our study provides the direct, indirect / induced and total benefits of a tax exemption to NC government retirees shown in **TABLE 5-1**. Each of these economic measures — economic output, labor income, and jobs — is separately computed in the model and each measures a different dimension of economic outcome.

TABLE 5-1 shows that the state's 2007 investment in an income tax exemption of $245.5 million for government retirees (had it been enacted) would have served to increase the state's total economic output (or GDP) by $393.8 million for a multiplier of 1.6 ($393.8 million total impact divided by $245.5 million direct impact). As further outcome measures, this table shows that the income tax exemption contributes a total of $125.9 million to labor incomes in NC and 3,672 jobs to the NC economy.

IMPLAN Multiplier Economic Impact (dollars in millions)

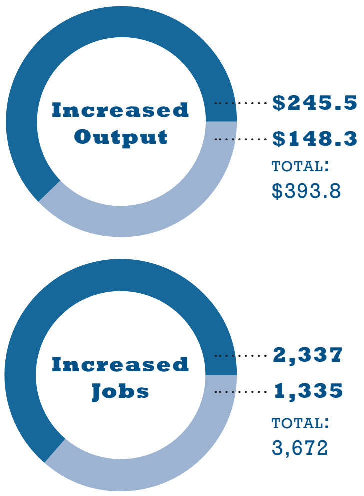
Type Impact	Increased Output	Increased Labor	Increased Jobs
Direct	$245.5	$76.5	2,337
Indirect/Induced	$148.3	$49.4	1,335
Total	$393.8	$125.9	3,672

"Direct" effects represent the increase in incomes associated with an income tax exemption; "indirect" effects represent the total increase in industries purchasing from other industries in multiple iterations as a result of the direct effects; and "induced" effects are the subsequent increases in economic values caused by both direct and indirect effects. Indirect and induced effects are combined in this table and text.

TABLE 5-1

IMPLAN Multiplier Economic Impact

DOLLARS IN MILLIONS



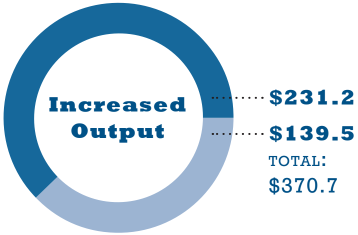
"Direct effects" represent the increase in incomes associated with an income tax exemption; "indirect / induced" effects represent all other economic impacts in NC.

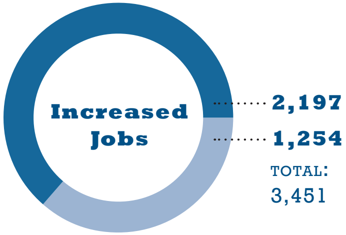
TABLE 5-2

IMPLAN Multiplier Results, Bailey Settlement Retirees

DOLLARS IN MILLIONS

■ DIRECT
▨ INDIRECT/ INDUCED





"Direct effects" represent the increase in incomes associated with an income tax exemption; "indirect / induced" effects represent all other economic impacts in NC.

TABLE 5-2 shows a totally separate IMPLAN multiplier analysis specifically for Bailey retirees for 2007 using the same methodology as above. The total Bailey impact (comparable to row three in **TABLE 5-1**) is as follows: $370.8 million in economic output; $118.4 million in added income, and 3,451 jobs. The Bailey multiplier is also 1.6. Of course, these results are expected to be comparable to the above unconstrained income tax exemption, since Bailey retirees comprise about 94% of the eligible retirees under a statewide income tax exemption (based on data from our survey).

IMPLAN Multiplier Results,
Bailey Settlement Retirees (dollars in millions)

Type Impact	Increased Output	Increased Labor	Increased Jobs
Direct	$231.2	$71.9	2,197
Indirect/Induced	$139.5	$46.5	1,254
Total	$370.7	$118.4	3,451

NC Costs of Providing an Income Tax Exemption to Government Employees

An income tax exemption for government retirees results in lower tax revenues to the state. As discussed above, the 2007 estimate of $245.5 million as the direct benefit to existing retirees in NC also represents the direct cost to the state of providing the tax exemption. Thus, the same amount of funds — $245.5 — either remains with the state (in the absence of an income tax exemption) or, with such a tax exemption, it provides funds to retirees to be spent in the private sector. When spent in the private sector, these funds generate a multiplier of 1.6 as estimated through the IMPLAN model.

Since these funds are taken from the NC treasury, the question arises: Had the NC state funds remained with the state, would such funds have generated a multiplier effect similar to that of the above retiree consumption expenditures? To examine this, we reviewed the literature and talked with state officials. The state officials indicated that most state agencies do not generally conduct their own multiplier studies, but that such studies are conducted by entities outside state government. Review of the literature did not uncover multiplier studies for major state programs or agencies. However, there were a number of NC multiplier studies, most using the IMPLAN model and providing multipliers, that were conducted for specific entities in North Carolina, including the following:

- NC Electric Cooperatives
- NC Community Colleges
- NC Ski Areas
- Wake County Community College
- Dare County Bicycle Facilities
- NC Motorsports Industry
- NC State University
- NC Wine and Grapes
- NC Home Furnishings

STUDIES HAVE SHOWN THAT IN-MIGRATION INTO A STATE IS DIRECTLY RELATED TO INCOME TAXES: THE LOWER THE TAX THE GREATER THE IN-MIGRATION

The multipliers found by this study range from 1.32 for Dare County Bicycle Facilities to 2.31 for NC State University. Most studies provided multipliers about 1.6 and 1.7. Although these are not generally NC government entities, many do receive state government funds. The multipliers are similar to the 1.6 multiplier for this study, although a direct comparison among multipliers is not possible because of the differences in methodologies among studies and, thus, differences in multiplier results.

Given the above qualifications and limitations, it seems fair to assume that, had the government retirement exemption funds remained with the state, one might expect a multiplier in the "ballpark" with the retiree multiplier of 1.6. For purposes of analysis, we therefore assumed that both the retirees and the state have the same multiplier of 1.6.

In-Migration and Retention Economic Impacts

Studies have shown that in-migration to a state from other states is related to the state income tax policies: the lower the income tax in a state the greater the expected in-migration. There is now a substantial body of literature that documents this conclusion, as summarized in CHAPTER 2. In-migration carries with it potential economic benefits that are in addition to those estimated in the preceding section. The in-migration of a retiree to the state because of a lower tax in that state (or the retention of a retiree who otherwise would leave the state) carries with it the impact of the full value of that retiree's total household income expended in that state, plus the multiplier that accompanies it, and the other community benefits described in **CHAPTER 1**. This is because the state would not have this retiree and his / her household without the income tax exemption. As noted previously, many states are aggressively pursuing retirees for this reason.

Estimating the effects of state income tax policies is a challenging statistical endeavor. There are a myriad of factors that retirees take into consideration when making their location decisions. In addition to income and other tax policies, these decisions may be influenced by friend and family considerations, lower costs of living, natural amenities such as beaches, mountains, and man-made amenities such as small towns, retirement facilities, golf courses and other recreation. Several comprehensive studies have recently been conducted to statistically hold these various factors constant so that the separate impact of a particular influencing factor, in this case an income exemption, can be estimated. These studies provide a sound basis for concluding that retirees relocate from higher income tax states to lower income tax states, particularly those retirees with higher levels of education (such as governmental retirees). Further, many of these studies have found that state economic growth is strongly related to lower income taxes **(SEE CHAPTER 2)**.

RETIREES MAKE MINIMAL USE OF PUBLIC FACILITIES AND SERVICES, PARTICULARLY SOCIAL SERVICES

A LEGISLATIVELY-ENACTED INCOME TAX EXEMPTION IS EXPECTED TO GENERATE A 10% INCREASE IN GOVERNMENT RETIREES IN NC.

In the following analysis, we make a best estimate of the effect of the NC tax exemption upon retiree in-migration and retention in NC. We assume, conservatively, that a legislatively enacted income tax exemption would generate a 10% increase in government retiree in-migration / retention in NC.

The following computations provide an estimate of the 2007 economic output resulting from the in-migration / retention of additional NC government retirees in response to the income tax exemption. The average annual increase in number of government retirees in NC from 2000 to 2006 was 11,431. As discussed above, we conservatively estimate that 10% of these retirees (or 1,143) would not likely be residing in NC if an income tax exemption were not in effect. Their average household income in 2007 is about $60,000. Thus, the 2007 direct economic benefit for NC is $68.6 million ($60,000 per retiree household times 1,143 retiree households). Applying the multiplier of 1.6 to the direct economic benefit of $68.6 million gives $109.7 million as the estimate of the total 2007 economic output resulting from in-migration / retention attributable to an income tax exemption.

The above analysis assumes that the multiplier computed for the impacts of the income tax exemption can be applied to the impacts generated through in-migration and retention — a reasonable assumption.

State and Local Offsets Arising From the Multiplier Impacts

As retirees spend the additional incomes from the tax exemption and as these expenditures spread throughout the economy via the multiplier effect, this economic growth will be accompanied by an increase in revenues to both state and local governments. They also add to local tax revenues. Such offsetting revenues apply both to in-migration / retention retirees and to existing retirees.

State Tax

North Carolina state tax revenues totaled $18.71 billion in 2006 *("NC Economic Conspectus," NC Office of State Budget and Management, July 2007)* The Gross Domestic Product (GDP) for North Carolina totaled $326.16 billion. Dividing state tax revenues by state GDP provides 5.74% as the percentage of GDP paid as state taxes.

The 5.74% applies to indirect and induced impacts but not to direct impacts of the income tax exemption. To compute the offset for the direct impact, we removed individual and corporate income taxes from the state tax revenues since such taxes would be exempted for retirees eligible under the income tax exemption and since corporate income taxes are not applicable.

INITIAL REVENUE COSTS OF A NC INCOME TAX EXEMPTION ARE PARTIALLY OFFSET BY SUBSEQUENT INCREASES IN STATE/LOCAL TAX REVENUES AS RETIREE ECONOMIC IMPACTS RIPPLE THROUGH THE ECONOMY.

WHEN RETIREES MOVE INTO OR REMAIN IN NC IN RESPONSE TO A TAX EXEMPTION, ECONOMIC BENEFITS ARE COMPOUNDED OVER TIME.

Local Tax

Applying the above state tax method to local offsets, the results are as follows. Local tax revenues in 2005 totaled $6.65 billion ***("LINC Topic Report: Local Government Taxes and Revenue, North Carolina," 2005)***. Dividing this number by the NC GDP provides 2.04% as the average local tax paid in NC.

Compounding Benefits for Retirees Moving to NC, or staying in NC, Because of the Income Tax Exemption

For those retirees who would likely stay in NC even without the income tax exemption or for those moving to NC for reasons other than the income tax exemption, the benefits received—and the costs incurred— are annual since each year they receive the income tax exemption and each year they correspondingly increase / modify their consumption / investment expenditures.

However, for those retirees who in-migrate to, or stay in NC, because of the income tax exemption, the benefits received are quite different in timing and amount. Each year, there is a new cohort of new in-migrants / 'retainees', and this is in addition to the previous year(s) cohorts. The only way a cohort would be reduced in size is through retirees moving out of NC or through death. Thus, for these retirees, the benefits are compounded over time. It is assumed that each cohort would have an annual reduction of five percent to account for decrease due to out-migration / death. Over time, the benefits from these annual cohorts are compounded year upon year, since all of these cohorts, beginning with the institution of a tax exemption, remain in NC and contribute to the NC economy.

Final Benefits and Costs

In TABLE 5-3 to the right, all benefits and costs are projected out ten years from 2007, using 2007 benefit / cost amounts and dollars. Each year's benefits and costs are then discounted to present value (2007) using a five percent interest rate. (This future time frame, and the associated discounting to present value, is needed because "benefits to retirees responding to income tax exemption" are compounded over time so that these benefits differ in amount in each future year; discounting, then, serves to place all values on an equal time basis, i.e., the year 2007). Ten years was chosen as an arbitrary cutoff time frame. However, benefits would continue to increase relative to costs if a longer time frame is used because of the compounding of benefits to retirees responding to the tax exemption.

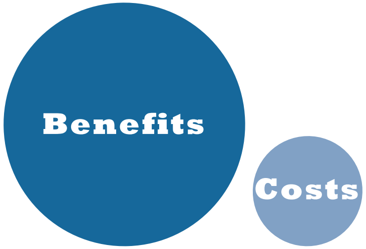
Thus, balanced assumptions give the state credit not only for the amount of income tax foregone but also for the additional multiplier impact to account for opportunity revenues if the funds had been used elsewhere by the state. However,

TABLE 5-3

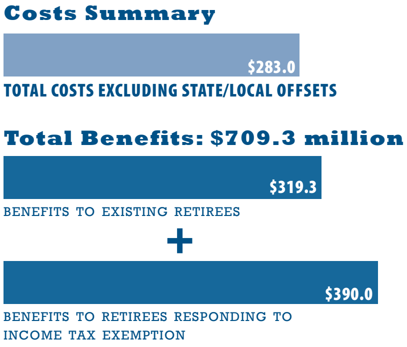
2007 Ratio of Benefits to Costs: 2.5/1

DOLLARS IN MILLIONS

BELOW IS A SUMMARY OF THE BENEFITS & COSTS OF AN NC INCOME TAX EXEMPTION FOR PUBLIC RETIREES



RATIO OF BENEFITS TO COSTS: 2.5/1



In these graphics, all benefits and costs are projected out ten years using 2007 data. Each year's benefits and costs are then discounted to present value

THE ECONOMIC BENEFITS OF A TAX EXEMPTION EXCEED LOST STATE REVENUES BY A RATIO OF 2.5 TO 1.0

this cost is much more than offset by the benefits — principally the "benefits to retirees responding to income tax exemptions"— which generates $390 million as shown in TABLE 5-3. The TABLE 5-3 ratio of benefits to costs is 2.5 to 1.

THIS INDICATES THAT GOVERNMENTAL RETIREES RETURN TO THE NC ECONOMY TWO AND A HALF TIMES MORE THAN THEY TAKE OUT THROUGH THE TAX EXEMPTION.

Additional Benefits

The benefits shown in TABLE 5-3 are not the full story of benefits provided by government retirees in NC. As shown in previous chapters there is a wide array of additional, and important, benefits to NC accruing from those government retirees residing in this state, including the following.

HOME CONSTRUCTION

For those retirees who respond to the income tax incentive by moving to NC, there is a major one-time home construction benefit for NC. Retiree home ownership percentage is high — 94% per our survey. Studies have shown that about 20% of retiree in-migrants purchase new homes. An average US newly constructed home is about $200,000. Based on these factors, the retirees moving to NC in response to the tax incentive generate a one-time home construction benefit of about $62.7 million.

HOUSING SUBSIDY FOR PUBLIC SCHOOLS

Only a very small percentage of retirees from our survey have school age children. However, a high percentage of retiree homeowners own their residences (94%) and they pay an average $1,674 in property taxes annually (per survey). In addition, 15% of these retirees have second residences in NC, paying an average of $1,218 property taxes on these second homes. Since about half of the budget in each community goes toward public schools, since retirees receive almost no direct benefit from having their children in school, and since retirees pay appreciable real estate taxes, their payment of taxes comprises a major subsidy of public schools.

For example, government retirees pay an average of $1,860 in real estate taxes annually (counting taxes on second residences); about half of this ($930) goes to schools; it takes about $1,950 per year of local funding to put one student through school; thus, essentially, two retiree households are approximately supporting the total local annual schooling expenses for one community student.

RETIREES CONTRIBUTE TO NC VIA MANY ADDITIONAL TYPES OF BENEFITS (SEE CHAPTER 1).

RETIREE VOLUNTEER AND SKILL CONTRIBUTIONS

In **CHAPTER 4**, it was estimated that the volunteer and skill contribution of our 2,480 survey respondents was $1.3 million, assuming $15 per hour for the reported 89,000 hours of service provided to the community. If this contribution is extrapolated to the approximately 280,000 government retirees in NC in 2007, we get a community volunteer and skill contribution of almost $150 million per year.

OTHER BENEFITS

The other benefits documented in this report are many, varied and important. They include:

1) wealth increases to the community (note Henderson county's success in using retiree wealth to generate major economic development)

2) stabilization of the business cycle (retiree incomes minimally affected by downturns in the economy)

3) educational levels (high government retiree education levels underpin retiree participation in local government and many other community and economic endeavors)

4) minimal use of public facilities and services, particularly social services

5) a green industry segment that does not need the "smokestacks" of major industry

6) a growing industry segment in NC which promises continuing future growth (a major player in NC rivaling the size of traditional industries, but rapidly outgrowing them).

7) wide geographic distribution of retirees across rural and urban areas of NC (survey included responses from all 100 counties in NC)

THIS APPENDIX DESCRIBES:

1) THE QUESTIONNAIRE PURPOSES,

2) HOW THE SURVEY WAS CONDUCTED, AND

3) THE ACTUAL QUESTIONNAIRE USED

{ APPENDIX }

GOVERNMENT RETIREE SURVEY

At the onset of this study, the available information on NC government retirees was critically reviewed and it was concluded that the available data were inadequate on such crucial factors as government retiree incomes, educational levels, volunteer contributions, tax payments, and household incomes. It was decided that it was inappropriate to assume or to approximate values for such important basic data; thus, a large survey of NC federal, military, state, and local retirees was conducted in 2007 to obtain the needed information. This appendix describes: **1)** the questionnaire purposes, **2)** how the survey was conducted, and **3)** the actual questionnaire that was used.

Survey Questionnaire Purposes

The survey questionnaire was driven by the need to collect economic data specific to federal, state, and local retirees and their households. Available sources of retiree information simply did not include specific data on governmental retirees. A large survey was launched to develop extensive, up-to-date data on economic and community service information on NC federal civilian, federal military, state, and local retirees.

The following section describes briefly the purpose and content of each question component asked (called parts in survey). The second section describes the implementation process used to generate the survey. The survey questionnaire itself is presented in the third section of this Appendix.

PART A

Part A was a screening question to determine whether the questionnaire recipient was qualified to complete the survey based on both **1)** receiving a governmental pension and **2)** residence in NC. If not, it was requested that this part of the questionnaire be returned. Part A also served to provide a location for the residence of the recipient so that we could determine the statewide distribution of the respondents. Care was taken not to require specific personal information on the respondent (such as social security number, return address, or sex) so that we could guarantee to the respondents that this survey would honor their confidentiality.

PART B

Part B1 asked whether or not the respondent met the eligibility criteria contained in the Bailey settlement, i.e., five or more years of creditable government service as of August 12, 1989. If the respondent answered yes, he / she was asked to complete section B2; if no, he / she was asked to complete B3. However, both those who answered "yes" and those who answered "no" were asked to complete the full survey. This enabled a distinction between those eligible, and those not, for purposes of subsequent data analysis. (See the analysis which follows in the next chapter.)

Both sections B2 and B3 requested responses as to how the income tax exemption from the Bailey Settlement influenced the respondent's **1)** decision to continue to reside in North Carolina and **2)** use of additional income made available from the income exemption. The answers provided data relevant to whether the Bailey Settlement income tax exemption affected the decision to retire in NC, an important aspect of estimating income tax exemption benefits.

PART C

Part C is important to this survey since it asks for two key demographics — age and educational attainment. The literature shows that income, health status and other factors change with advancing age in the retirement group, so age is an important analysis variable. Age ranges (rather than a specific age) are requested to provide an additional way to mask identity. The literature establishes that economic benefits are directly related to educational attainment in a positive way so education was a needed data element in the survey.

PART D

Part D addresses the availability of both health insurance and long term care insurance. Retirees, generally, are well covered by their regular health care benefits via Medicare and, often, supplemental, health insurance policies. However, government retirees are believed to have even better coverage of their health care and long-term care benefits because of government-sponsored health insurance programs. This part asks about the use of these types of insurance.

PART E

Part E is a very important part of the survey since it asks for the retiree's pension and other income, by major source. This information combined with **1)** the source of retirement — federal civilian, military, state, and local, **2)** the educational attainment level, **3)** resident location within the state, and **4)** other variables in the survey enables an understanding of the income contribution of government retirees in NC.

PART F

Part F expands the income data from Part E to cover the full retiree household for those of working age (16+ years). Part F screens for the presence of school age children in the household, since retirees generally contribute substantially to local taxes, primarily real estate taxes, but gain little direct benefit from local public schools unless they have children who are enrolled. Parts F3 and F4 ask for income information for other household members in the retiree's household, essentially the same information as for the retiree in Part E.

PART G

Very few surveys have touched on the volunteer contributions of retirees. None of the studies and data sources identified in the literature search provided details as extensive as in Part G of this survey.

Volunteer and skill activities were divided into two major sections: Volunteer Activity with Organizations (G1) and Special Skills used for Community Benefit (G2). Each section has a number of subsections to permit responses specific to a particular organization or skill. The contributions of the retiree are separated from the contributions of the other household member(s). Number of hours contributed per month was included as a way to quantify volunteer contributions.

PART H

Part H requests retiree household information on the amounts expended for three major types of NC: state income taxes, real estate taxes (both primary residence and any second residence in NC), and vehicle personal property. Information was not requested on sales taxes since it was believed that many respondents would not have readily available information on sales taxes. Instead, it was decided to estimate sales taxes as part of our analysis based on expenditures expected for the levels of income reported.

Survey Implementation

This was a difficult survey to implement. At the most basic level, there were no government data available on the names and addresses of government retirees to provide a mailing list for the survey. The "backup" source of data on federal civilian, military, state, and local retirees was comprised of the mailing lists of the major retiree associations. Thus, the survey used a random selection from the mailing lists of the major federal, military, state and local associations to develop a sample of respondents for this study.

The first steps in survey implementation were to develop the survey questionnaire (described in the preceding section) and, in parallel, to develop the mailing list for the survey. The questionnaire required extensive development and pilot testing since there was no available survey questionnaire on which to build. A major nationwide survey research company reviewed and improved the survey questionnaire. This company also added the skip patterns to the questionnaire and enhanced the format.

The initial mailing list was developed from the following:

■ National Active and Retired Federal Employees Association (NARFE): An association of active and retired federal civil service employees and an active participant in this study. The Association membership consisted of about 7,500 members in NC.

- State Employees Association of North Carolina (SEANC): An association of active and retired NC state employees and an active participant in this study. The Association membership consisted of about 14,000 retired members in NC.
- Military Officers Association of America (MOAA), NC Chapter: An association of retired military officers and an active participant in this study. The Association membership consisted of about 8,400 members in NC.
- The Fourth Branch sponsored the retired local employees.
- The military enlisted and Non-Commissioned Officer personnel included in the survey were NC members of the National Association of Uniform Services (NAUS) plus several other, smaller associations.

We mailed out 9,078 questionnaires to a randomly selected sample of members from each of the above associations, and received most of the responses within two months. We achieved a response rate of 35% from this survey, even without a reminder mailing; this is considered an excellent response rate in today's market. Each survey was conveyed by a cover letter from the association sponsor indicating the importance of the survey; this was a major factor in the excellent response achieved.

The survey questionnaire responses were pre-coded by the survey research company as part of the questionnaire development. This pre-coding helped to facilitate the electronic data entry of the massive volume of survey responses (from both the initial and the follow-on surveys) consisting of about 2,800 usable questionnaires (plus about 350 unusable / ineligible responses received).

Lastly, it is important to emphasize that the 11- page questionnaires were usually fully and seriously completed by respondents despite the extensive length of the survey and the very sensitive information being requested — particularly the income and tax data. Survey research firms told us at the onset that the income and tax data were very sensitive and would likely lead to non-response — this did not happen.

Survey Questionnaire

The questionnaire on the following pages was used to reflect the purposes in SECTION 1. It resulted from the implementation processes described in SECTION 2.

North Carolina
Government Retiree Survey

INSTRUCTIONS

- To answer a question, simply check the box that best represents your answer.
- You may use either pen or pencil.
- Please choose only one answer per question unless the question indicates Check all that apply. Your best estimate is fine.
- Not all questions will apply to you — based on your answers, you will sometimes be asked to skip questions. Follow the instructions after the arrows (⇨)

PART A: Government Retiree and Residence Status

A1. Did you retire from a Federal civilian position, military service, a North Carolina state government position, or a North Carolina local government position?

1 ☐ Yes
2 ☐ No ⇨ ***Go to Box 1 on next page***

A2. Is your principal residence in North Carolina?

1 ☐ Yes
2 ☐ No ⇨ ***Go to Box 1 on next page***

A3. What is the county or city of your principal North Carolina residence?

County or city: ____

BOX 1

We thank you for your interest, but this survey is only for those who answered yes to questions **A1** and **A2**. Please tear off this page and return it in the enclosed envelope.

PART B: Eligibility Status re Bailey Settlement

As a result of the Bailey settlement, residents of North Carolina with 5+ years of creditable government service (North Carolina state and local government, federal civilian and military) as of August 12, 1989, are exempt from North Carolina state income tax on their government pension income.

B1. Did you have 5 or more years of creditable government service as of August 12, 1989?

1 ☐ Yes ⇨ ***Go to Section B2 at the top of page XX***

2 ☐ No ⇨ ***Go to Section B3 at the bottom of page XX***

Section B2: For Retirees Covered by the Bailey Settlement

B2a. How much did the North Carolina state income tax exemption provided by the Bailey settlement influence your decision to continue to reside in North Carolina? Check one of the following:

1 ☐ Did not influence decision at all

2 ☐ Was a small influence

3 ☐ Was a moderate influence

4 ☐ Was a major influence

5 ☐ Was the primary reason for continuing to reside in North Carolina

B2b. At present, since you are not paying state income tax on your government pension, how do you use the additional income? Check all of the following that apply and list any others at end:

1 ☐ Everyday household expenses such as food, clothing, utilities, and gasoline
2 ☐ Medical expenses
3 ☐ Toward purchase of residence
4 ☐ Savings or investments
5 ☐ Taxes
6 ☐ Payment on debt (credit cards, bills, etc.)
7 ☐ Donations to charities
8 ☐ Other (Specify): ____

If you are covered by the Bailey settlement, **Go to Part C**

Section B3: For Retirees Not Covered by the Bailey Settlement

B3a. The North Carolina State Legislature has pending a bill that would eliminate state income tax on all Federal government and North Carolina state and local government retirement annuities. If this bill were passed, how much would it influence whether or not you continue to reside in North Carolina? Check one of the following:

1 ☐ No influence at all
2 ☐ A small influence
3 ☐ A moderate influence
4 ☐ A major influence
5 ☐ It would be the primary influence

B3b. If you did not have to pay North Carolina taxes on your government pension, how do you think you would use the additional income? Check all of the following that apply and list any others:

1 ☐ Everyday household expenses such as food, clothing, utilities, and gasoline
2 ☐ Medical expenses
3 ☐ Toward purchase of residence
4 ☐ Savings or investments
5 ☐ Taxes
6 ☐ Payment on debt (credit cards, bills, etc.)
7 ☐ Donations to charities
8 ☐ Other (Specify): ____
9 ☐ Not sure

PART C: Background Questions for Government Retirees

C1. What is your age?

1 ☐ Less than 50 years
2 ☐ 50 to 54 years
3 ☐ 55 to 59 years
4 ☐ 60 to 64 years
5 ☐ 65 to 69 years
6 ☐ 70 to 74 years
7 ☐ 75 to 79 years
8 ☐ 80 to 84 years
9 ☐ 85 years or over

C2. What is your highest level of educational attainment?

1 ☐ Less than grade 8
2 ☐ Grade school completion
3 ☐ High school diploma or equivalent
4 ☐ Trade/Technical school completion or certification
5 ☐ Some college but no degree
6 ☐ Two-year College Associate degree
7 ☐ Four-year College Bachelor's degree
8 ☐ Graduate or professional degree
9 ☐ Other (Specify): ____

PART D: Insurance

D1. Do you currently have any kind of private health care coverage, including health insurance or prepaid plans such as HMOs?

1 ☐ Yes
2 ☐ No

D2. Do any others in your household currently have private health care coverage, including health insurance or prepaid plans such as HMOs?

1 ☐ Yes, all other household members
2 ☐ Some but not all other household members
3 ☐ No
4 ☐ Does not apply

D3. Do you currently have long-term care insurance on yourself?

1 ☐ Yes
2 ☐ No

D4. Do any others in your household currently have long-term care insurance?

1 ☐ Yes
2 ☐ No

PART E: Government Retiree Income in Calendar Year 2006

The next questions ask about your calendar year 2006 approximate pension income and other income amounts.

Retiree's Pension Income and Other Work-Related Income in 2006

E1. Check all government entities from which you yourself receive a pension income.

1 ☐ North Carolina state government
2 ☐ North Carolina local government
3 ☐ Federal civilian government
4 ☐ Military service

E2. In calendar year 2006, what was the total amount of pension income you yourself received from these government entities (before withholding for taxes, health insurance, etc.)?

1 ☐ $1 to $3,999
2 ☐ $4,000 to $13,999
3 ☐ $14,000 to $23,999
4 ☐ $24,000 to $33,999
5 ☐ $34,000 to $43,999
6 ☐ $44,000 to $53,999
7 ☐ $54,000 to $63,999
8 ☐ $64,000 +

E3a. Did you also retire from a private-sector job that provides you with a pension?

1 ☐ Yes
2 ☐ No ⇨ ***Go to E4 below***

E3b. In calendar year 2006, what was your annual pension income from the private-sector job before withholding for taxes, health insurance, etc.?

1 ☐ $1 to $3,999
2 ☐ $4,000 to $13,999
3 ☐ $14,000 to $23,999
4 ☐ $24,000 to $33,999
5 ☐ $34,000 to $43,999
6 ☐ $44,000 +

E4. Mark the boxes below (E4a, E4b, E4c) if you received income in calendar year 2006 from self-employment, paid employment, or social security and indicate the amount of income received in 2006 (before withholding for taxes, health insurance, etc.).

			Calendar year 2006 retiree income amount						
MARK HERE:			**$1 TO $7,999**	**$8,000 TO $15,999**	**$16,000 TO $23,999**	**$24,000 TO $31,999**	**$32,000 TO $41,999**	**$42,000 TO $51,999**	**$52,000 OR MORE**
☐	E4a.	Self-employment	**1** ☐	**2** ☐	**3** ☐	**4** ☐	**5** ☐	**6** ☐	**7** ☐
☐	E4b.	Paid employment	**1** ☐	**2** ☐	**3** ☐	**4** ☐	**5** ☐	**6** ☐	**7** ☐
☐	E4c.	Social security	**1** ☐	**2** ☐	**3** ☐	**4** ☐	**5** ☐	**6** ☐	**7** ☐

Retiree's Total Income

E5. What was your total income from all sources in CY 2006? (Include government pension income, private-sector pension or annuity, social security, self-employment profit, wages, interest, dividends, rental income, etc.)

1 ☐ $1 to $19,999
2 ☐ $20,000 to $34,999
3 ☐ $35,000 to $49,999
4 ☐ $50,000 to $64,999
5 ☐ $65,000 to $79,999
6 ☐ $80,000 +

PART F: Other Household Residents

F1a. Are there any school-age youth (kindergarten through grade 12) in this household?

1 ☐ Yes
2 ☐ No ⇨ ***Go to Part G on page 7***

F1b. How many school-age youth attend public schools?

1 ☐ 0
2 ☐ 1
3 ☐ 2
4 ☐ 3 or more

F2. Besides you, does anyone else live in your household who is age 16 or over?

1 ☐ Yes ⇨ ***Continue below***
2 ☐ No ⇨ ***Go to Part G on page 7***

Pension Income and Other Work-Related Income in 2006: Other Household Members , 16 Years and Over

The following income questions ask for combined 2006 income amounts only for the retiree spouse and any other persons in the household who are age 16 and over.

F3. Mark the boxes below (F3a, F3b, F3c, F3d) if other household members (16 years and over) received income in calendar year 2006 from a pension, self-employment, paid employment, or social security and indicate the amount of income received in 2006 (before withholding for taxes, health insurance, etc.).

Calendar year 2006 income amount: Total other persons 16+

MARK HERE:			**$1 TO $7,999**	**$8,000 TO $15,999**	**$16,000 TO $23,999**	**$24,000 TO $31,999**	**$32,000 TO $41,999**	**$42,000 TO $51,999**	**$52,000 OR MORE**
☐	F3a.	Pension	1 ☐	2 ☐	3 ☐	4 ☐	5 ☐	6 ☐	7 ☐
☐	F3b.	Self-employment	1 ☐	2 ☐	3 ☐	4 ☐	5 ☐	6 ☐	7 ☐
☐	F3c.	Paid employment	1 ☐	2 ☐	3 ☐	4 ☐	5 ☐	6 ☐	7 ☐
☐	F3d.	Social security	1 ☐	2 ☐	3 ☐	4 ☐	5 ☐	6 ☐	7 ☐

Total Income for Other Household Members

F4. In calendar year 2006, what was the total income from all sources received by other members of this household age 16 years and over (include pensions, retirement annuities, social security, self-employment profit, wages, interest, dividends, rental income, etc.)? Check one of the following:

1 ☐ $0
2 ☐ $1 to $9,999
3 ☐ $10,000 to $19,999
4 ☐ $20,000 to $29,999
5 ☐ $30,000 to $39,999
6 ☐ $40,000 to $49,999
7 ☐ $50,000 to $59,999
8 ☐ $60,000 +
9 ☐ Don’t know

Part G: Household Members' Volunteer Activities in 2006

For yourself (retiree) and for all household members 16 years and over, mark all volunteer activities with organizations (**Question G1**), then mark all other activities where you and other household members used special skills on your own for community benefit (**Question G2**).

G1. Mark all organizations for which you and any household member 16 years of age and over volunteered time in 2006. On the designated lines, describe the volunteer activity and estimate total average hours volunteered per month in 2006.
Volunteer Activity with Organizations: Retiree / Household Members 16 Years +

Volunteer Activities with Organizations

MARK HERE:	ORGANIZATION	BRIEF DESCRIPTION OF ACTIVITY	ESTIMATED TOTAL AVERAGE HOURS PER MONTH IN 2006
☐ **G1a.**	**Governmental/civic organization** (board of education, county commissioners, recreation committee, others)	____________________ Retiree ____________________ Other household members 16 years +	____________________ ____________________
☐ **G1b.**	**Community Clubs** (Lions, Rotary, Kiwanis, Jaycees, American Legion, other)	____________________ Retiree ____________________ Other household members 16 years +	____________________ ____________________
☐ **G1c.**	**Churches/Religious Organizations**	____________________ Retiree ____________________ Other household members 16 years +	____________________ ____________________

Volunteer Activity with Organizations: Retiree / Household Members 16 Years + (cont.)

MARK HERE:	ORGANIZATION	BRIEF DESCRIPTION OF ACTIVITY	ESTIMATED TOTAL AVERAGE HOURS PER MONTH IN 2006
☐ **G1d.**	**Schools**	______________________ Retiree	______________________
		______________________ Other household members 16 years +	______________________
☐ **G1e.**	**Senior Centers**	______________________ Retiree	______________________
		______________________ Other household members 16 years +	______________________
☐ **G1f.**	**Health Organizations**	______________________ Retiree	______________________
		______________________ Other household members 16 years +	______________________
☐ **G1g.**	**Environmental Organizations**	______________________ Retiree	______________________
		______________________ Other household members 16 years +	______________________
☐ **G1h.**	**Habitat for Humanity**	______________________ Retiree	______________________
		______________________ Other household members 16 years +	______________________

☐ **G1i.**	**Meals on Wheels**	____________________ Retiree	____________________
		____________________ Other household members 16 years +	____________________
☐ **G1j.**	**Homeowners Associations/ Retirement Associations**	____________________ Retiree	____________________
		____________________ Other household members 16 years +	____________________
☐ **G1k.**	**Other Organization (specify)**	____________________ Retiree	____________________
		____________________ Other household members 16 years +	____________________

Special Skills Used for Community Benefit

G2. Mark all special-skill volunteer activities that you and other household members 16 years of age and over used on your own for community benefit in 2006. On the designated lines, describe skill use and estimate total average hours volunteered per month in 2006.

Other Special Skills Used for Community: Retiree / Household Members 16 Years +

MARK HERE:	ORGANIZATION	BRIEF DESCRIPTION OF SKILL USE	ESTIMATED TOTAL AVERAGE HOURS PER MONTH IN 2006
☐ **G2a.**	**Tax Preparation**	______________________ Retiree	______________________
		______________________ Other household members 16 years +	______________________
☐ **G2b.**	**Accounting/Finance**	______________________ Retiree	______________________
		______________________ Other household members 16 years +	______________________
☐ **G2c.**	**Construction/ Reconstruction**	______________________ Retiree	______________________
		______________________ Other household members 16 years +	______________________
☐ **G2d.**	**Sports/Recreation**	______________________ Retiree	______________________
		______________________ Other household members 16 years +	______________________
☐ **G2e.**	**Team Activities/ Leadership**	______________________ Retiree	______________________
		______________________ Other household members 16 years +	______________________

☐ **G2f.**	**Teaching/Tutoring**	________________ Retiree	________________
		________________ Other household members 16 years +	________________
☐ **G2g.**	**Driver**	________________ Retiree	________________
		________________ Other household members 16 years +	________________
☐ **G2h.**	**Other Work With Youth**	________________ Retiree	________________
		________________ Other household members 16 years +	________________
☐ **G2i.**	**Other Work With Seniors**	________________ Retiree	________________
		________________ Other household members 16 years +	________________
☐ **G2j.**	**Other**	________________ Retiree	________________
		________________ Other household members 16 years +	________________

PART H: Household Tax Expenditures in Calendar Year 2006

H1. For your total household, what was the approximate amount of North Carolina state income taxes paid in calendar year 2006?

1 ☐ $0
2 ☐ $1 to $999
3 ☐ $1,000 to $1,999
4 ☐ $2,000 to $2,999
5 ☐ $3,000 to $3,999
6 ☐ $4,000 to $4,999
7 ☐ $5,000 +

H2a. Do you own your own residence?

1 ☐ Yes
2 ☐ No à Go to Question H3a on page 11

H2b. About how much did you pay in real estate taxes on your principal residence in calendar year 2006?

1 ☐ $0
2 ☐ $1 to $999
3 ☐ $1,000 to $1,999
4 ☐ $2,000 to $2,999
5 ☐ $3,000 to $3,999
6 ☐ $4,000 +

H2c. Do you own a second residence in North Carolina?

1 ☐ Yes
2 ☐ No ⇨ ***Go to Question H3a on page 11***

H2d. About how much in taxes did you pay on this second residence in calendar year 2006?

1 ☐ $0

2 ☐ $1 to $999

3 ☐ $1,000 to $1,999

4 ☐ $2,000 to $2,999

5 ☐ $3,000 to $3,999

6 ☐ $4,000 +

H3a. Do you own one or more motor vehicles (including boats and recreational vehicles)?

1 ☐ Yes

2 ☐ No ⇨ ***Go to "Thank you!"***

H3b. About how much did you pay in personal property tax on these motor vehicles in calendar year 2006?

1 ☐ $0

2 ☐ $1 to $299

3 ☐ $300 to $599

4 ☐ $600 to $899

5 ☐ $900 +

Thank you!

Please fold this questionnaire in half and return in the postage-paid envelope provided.

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TASK FORCE OF NORTH CAROLINA

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