Analytics

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RE: THE GRAY WAVE - PLANNING AHEAD

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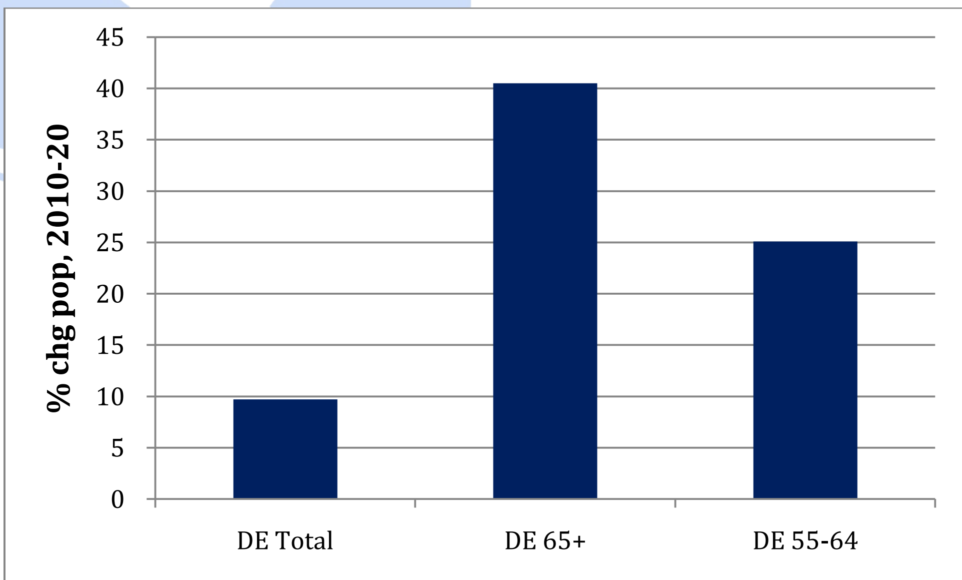
The leading edge of the baby boomers hits age 65 this year and will contribute to a surge in Delaware's senior population over the coming decade. The Delaware Population Consortium projects a 10% increase in the state's population from 2010 to 2020 while the senior population jumps 41% (Chart 1). This surge in seniors has tremendous implications for consumer markets, financial services, the labor force, housing and government. Is Delaware beginning to prepare for the Gray Wave?

Chart 1 – The wave is upon us

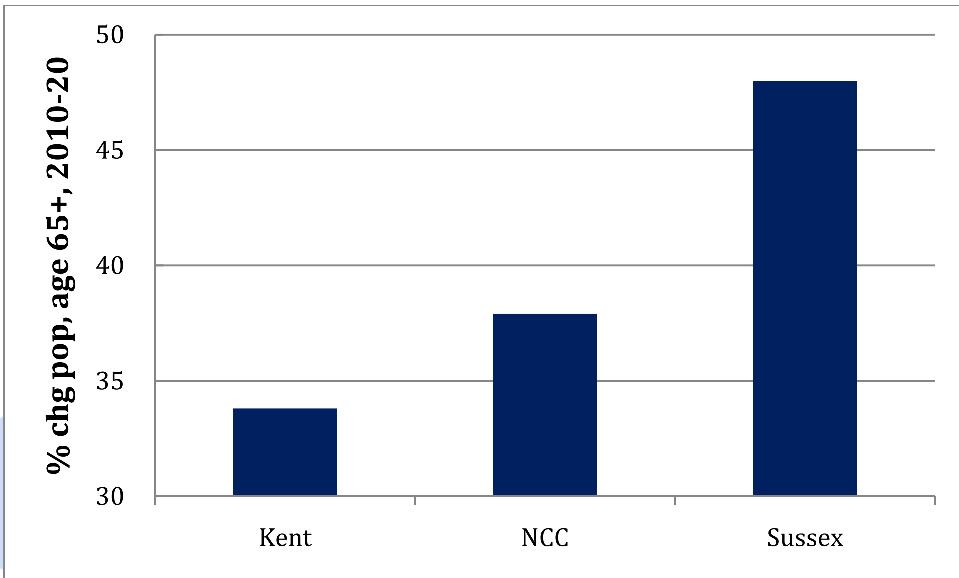


Source: Delaware Population Consortium

The Gray Wave in Delaware is driven by both boomers who will age in place and boomers who will migrate to Delaware upon retirement. There are a variety of advantages to retirement in Delaware. In addition to relatively low property taxes and no sales tax, the state of Delaware does not tax Social Security benefits, has an income exclusion for pension and eligible retirement income, a low income elderly exclusion and a standard deduction for persons 65 and over.

This has particularly benefited Sussex County with its beaches, inland bays and slower pace of life…and this advantage is expected to continue over the coming decade (Chart 2). Although the senior population will expand the most rapidly in Sussex County, the distribution of seniors throughout the state will remain relatively stable with one-half in New Castle County, one-third in Sussex and one-sixth in Kent. Obviously, a larger portion of the growth in seniors in New Castle County will come from aging in place while the lion's share of in-migrating retirees will go to Sussex County.

Chart 2 – The Gray Wave is greatest in Sussex County



Source: Delaware Population Consortium

While retail and service markets will adjust to the shifting consumption patterns that occur as people move into their senior years, will government be as flexible? What are some of the issues facing state and local government in Delaware from the Gray Wave?

As households age they have less disposable income per person and transfer payments (Social Security, SSI, Medicare, Medicaid) grow as a share of income. This, together with current exclusions, puts a damper on the growth in the state's personal income tax revenue.

Out-of-pocket spending on healthcare soars as folks pass age 65. This will increasingly strain government provided services such as public health, emergency and paramedics, and the state's contribution to Medicaid (approximately 10% of Medicaid recipients are elderly). These pressures will vary by county as the elderly who age in place tend to have less income, wealth and education than the elderly who migrate.

As the baby boomers age, state and local government pension and healthcare obligations will grow exponentially. This will be exacerbated by the commitment of government to defined pension plans and generous healthcare promises. The level of employee participation in retirement plans is higher in government (86%) than in nongovernment (50%).

Finally, there is a grab bag of government supported services that will be impacted by the Gray Wave in Delaware. Included are public transportation and par transit, senior centers, visiting nurses and a variety of social services. All of these issues and more can be analyzed and prepared for by Delaware government. Among the questions that need to be addressed is: are the tax exclusions that make Delaware attract to seniors offset by economic development and streams of tax revenue from alternative sources? The time to get started on this evaluation is now.

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