

Making Nebraska More Retiree Friendly

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Key facts about retirement income for public retirees (2013 data)

- 24,500 retirees (20,500 state & 4,000 Omaha)
 - 21,500 of the retirees stay in NE
 - Total pensions of \$47.7 million per month
 - \$572 million paid out each year
 - \$512 million stays in NE
- Should create over 4,500 jobs in NE
- 89.3% of the pension money stays in NE
- **Retirees SPEND their income!**

More data on retiree income

- 13,278 federal retirees in Nebraska
 - Total federal pension dollars to Nebraska was \$26.5 million per month in 2009 (\$318 MM/yr)
- 304,000 Social Security beneficiaries, 277,000 on Medicare in Nebraska
 - Social Security payments in 2012 = \$4.3 B
 - Economic impact = \$7.2 B
 - Supports about 51,000 jobs in NE
 - Medicare payments in 2010 = \$2.35 B

How do states treat retirement income?

- **7 states do not have state income tax (AK, FL, NV, SD, TX, WA, WY)**
- **2 states only apply income tax to interest and dividends (NH, TN)**
- **41 states have state income tax**
 - **27 of those and DC provide full exclusion of Social Security income**

» Source: www.retirementliving.com/RLtaxes.html and Kiplinger's Personal Finance, August 2008

What do 14 states that tax Social Security actually tax?

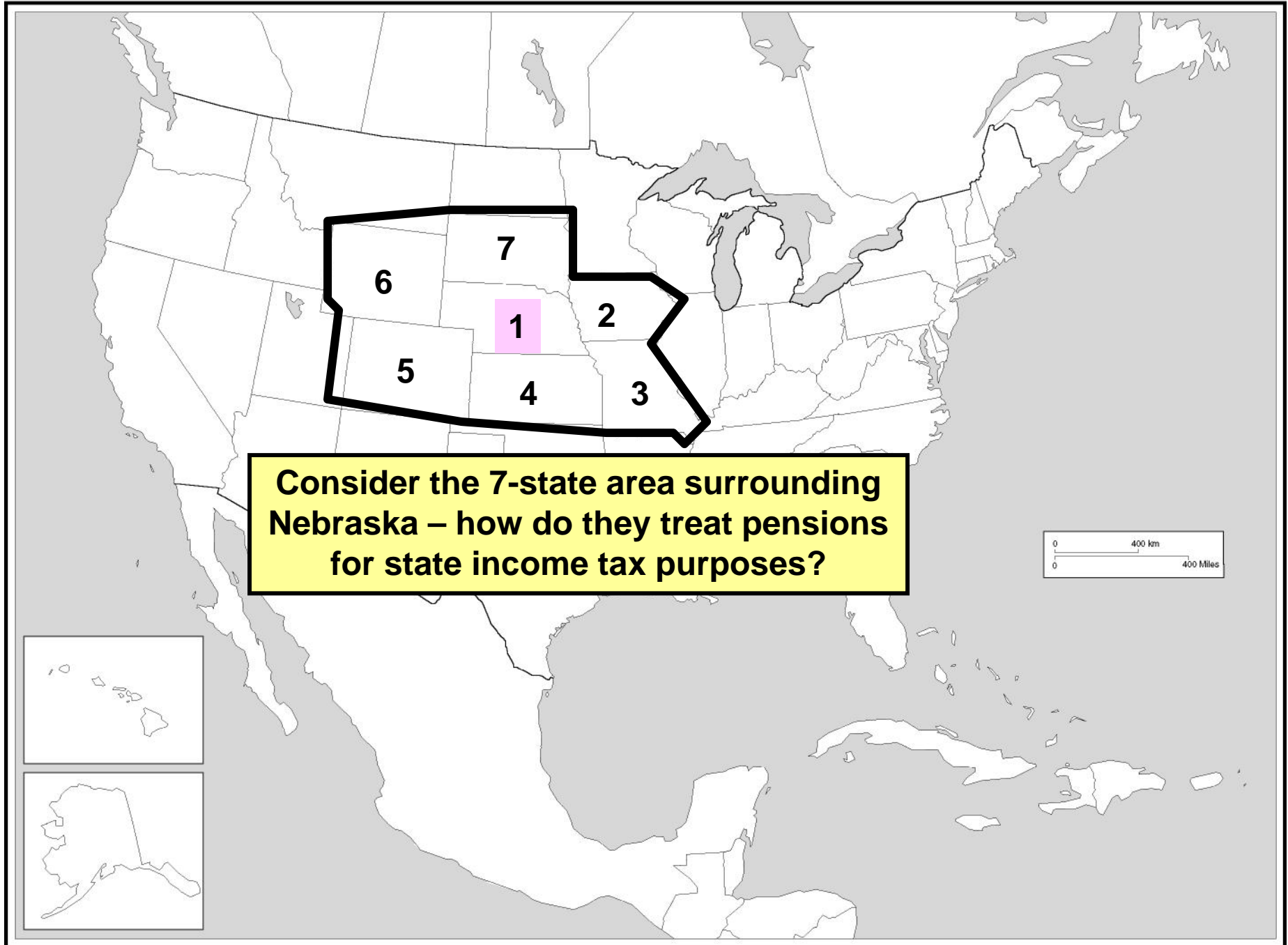
- 3 add untaxed Social Security benefits to AGI to determine income exclusions (CO, NM, UT)
- 6 tax Social Security above an income floor (CT, IA, KS, MO, MT, WI) – Iowa & Missouri will phase out taxing Soc. Sec.
- 5 tax Social Security to extent it is taxed by federal gov. (MN, NE, ND, RI, VT)

» Source: www.retirementliving.com/RLtaxes/html

What about state pension taxation?

- **10 states exclude all federal, state, and local pension income from taxation (AL, HI, IL, KS, LA, MA, MI, MS, NY, PA)**
 - » Source: www.retirementliving.com/RLtaxes.html
- **4 states allow no exemption or tax credits for pension or retirement income (NE, NM, RI, VT)**
 - NM gives extra deduction of \$8,000 if >65
 - » Source: Where to Retire May/June 2008

UNITED STATES



Comparison of 7 state tax burden on seniors

- **NE** = fully tax Social Security & pension
- **IA** = no tax on Social Security by 2014, first \$24,000 of pension exempt
- **MO** = no tax on Social Security (by 2012) or public pension income, first \$6,000 of private pension exempt
- **KS** = no tax on Social Security if AGI < \$75K, Kansas public pension tax exempt
- **CO** = first \$20,000 of Social Security and pension income exempt (\$24K if > 65)
- **WY** = no income tax
- **SD** = no income tax

Top 9 states with NE pension income

(WY is #11, but is part of 7-state region)

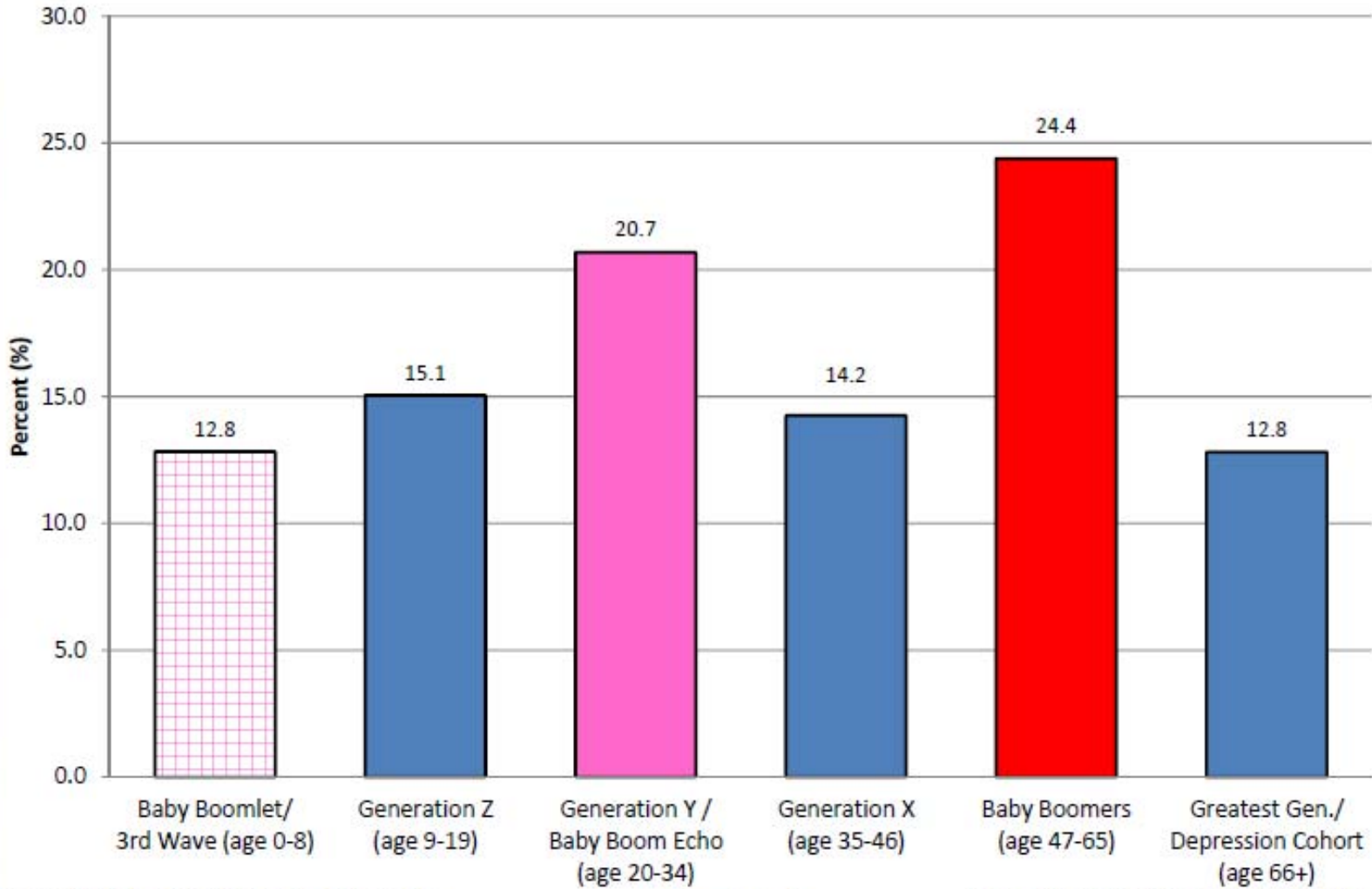
State	Rank	Pension
NE	1	\$42.6 million
IA	2	\$846,000
AZ	3	\$585,000
CO	4	\$530,000
MO	5	\$362,000
SD	6	\$358,000
TX	7	\$322,000
FL	8	\$267,000
KS	9	\$245,000
CA	10	\$139,900
WY	11	\$134,000

State	Taxation of Pension
NE	= 100% taxed
IA	= \$32,000 exempt
AZ*	= \$2,500 exempt
CO	= \$24,000 exempt
MO	= \$6,000 exempt
SD	= No income tax
TX*	= No income tax
FL*	= No income tax
KS	= Full exemption
	(no exemption for outside pension)
WY	= No income tax

Baby Boomers are Nebraska's Largest Population Group



July 1, 2012 Nebraska Population by Age Cohort



Source: 2012 Vintage Population Estimates by Single Year of Age, U.S. Census Bureau

Age Cohort

Prepared by: David Drozd, Center for Public Affairs Research, University of Nebraska Omaha

Center for Public Affairs Research

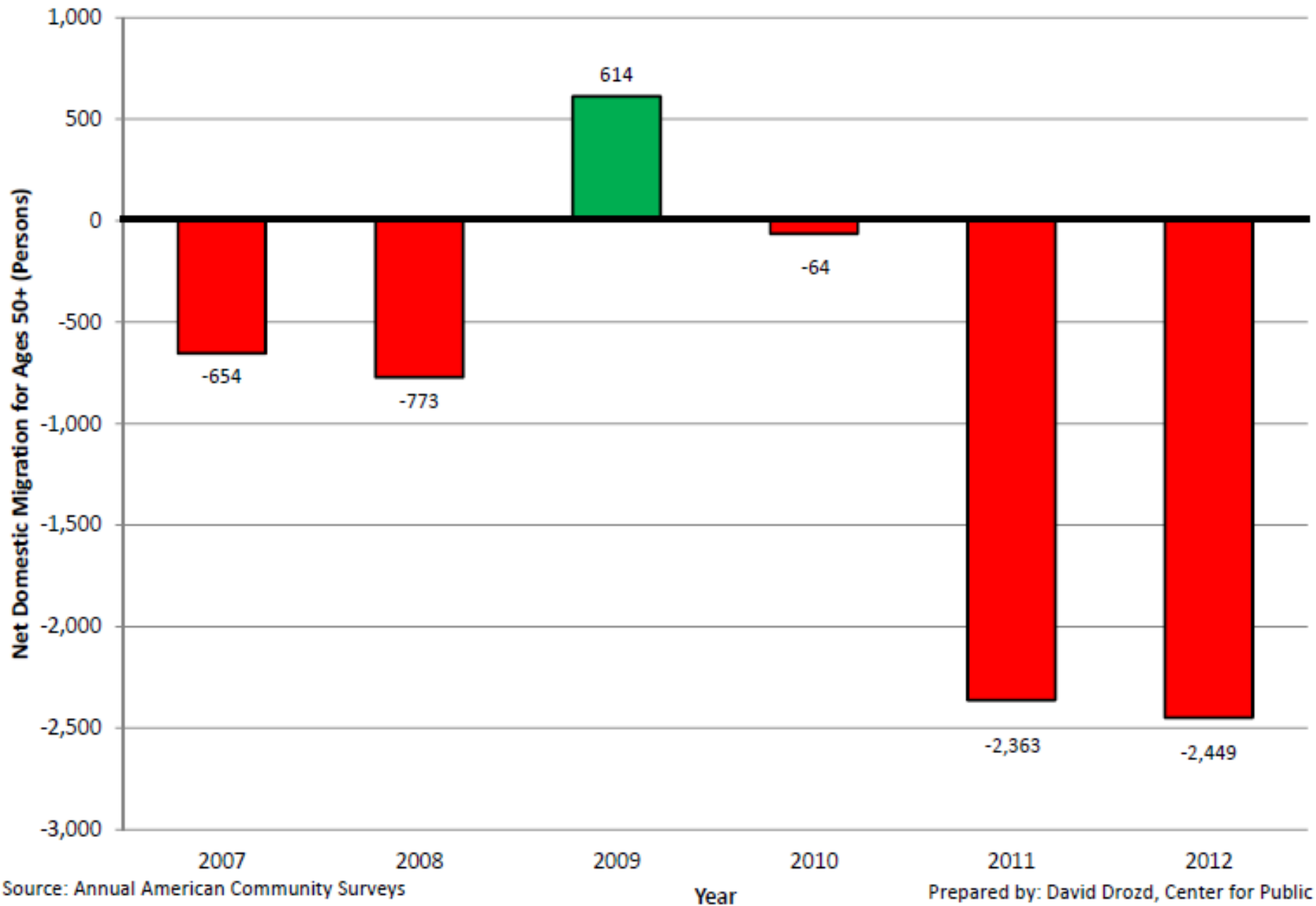
Is Nebraska an “older population” state?

Key: Red color shows larger share of population

<u>Age Group</u>	<u>2010 U.S.%</u>	<u>2010 NE%</u>	<u>State Rank</u>
Under 5	6.5	7.2	6
5-19	20.4	20.8	12
20-34 (echo)	20.3	20.5	18
35-44 (gen X)	13.3	12.1	44
45-64 (boomers)	26.4	25.8	41
65-79 (depression)	9.4	9.3	35
80+ (greatest gen)	3.6	4.2	12
Median age	37.2	36.2	14

NE is 1 year younger than nation as a whole

Net Migration of Nebraskans Age 55 or Older: 2007 to 2012



Source: Annual American Community Surveys (tables B07001 & B07401), U.S. Census Bureau

Prepared by: David Drozd, Center for Public Affairs Research, University of Nebraska Omaha

Effect of Migration by Age on Household Income Structure: State Rankings

<u>Households with...</u>	<u>Percent</u>	<u>Rank</u>	
Earnings	82.1	10	} Relatively high
Interest/Dividends	26.6	16	
Social Security or Railroad Retirement	27.3	36	} Relatively low
Retirement income*	13.5	50	

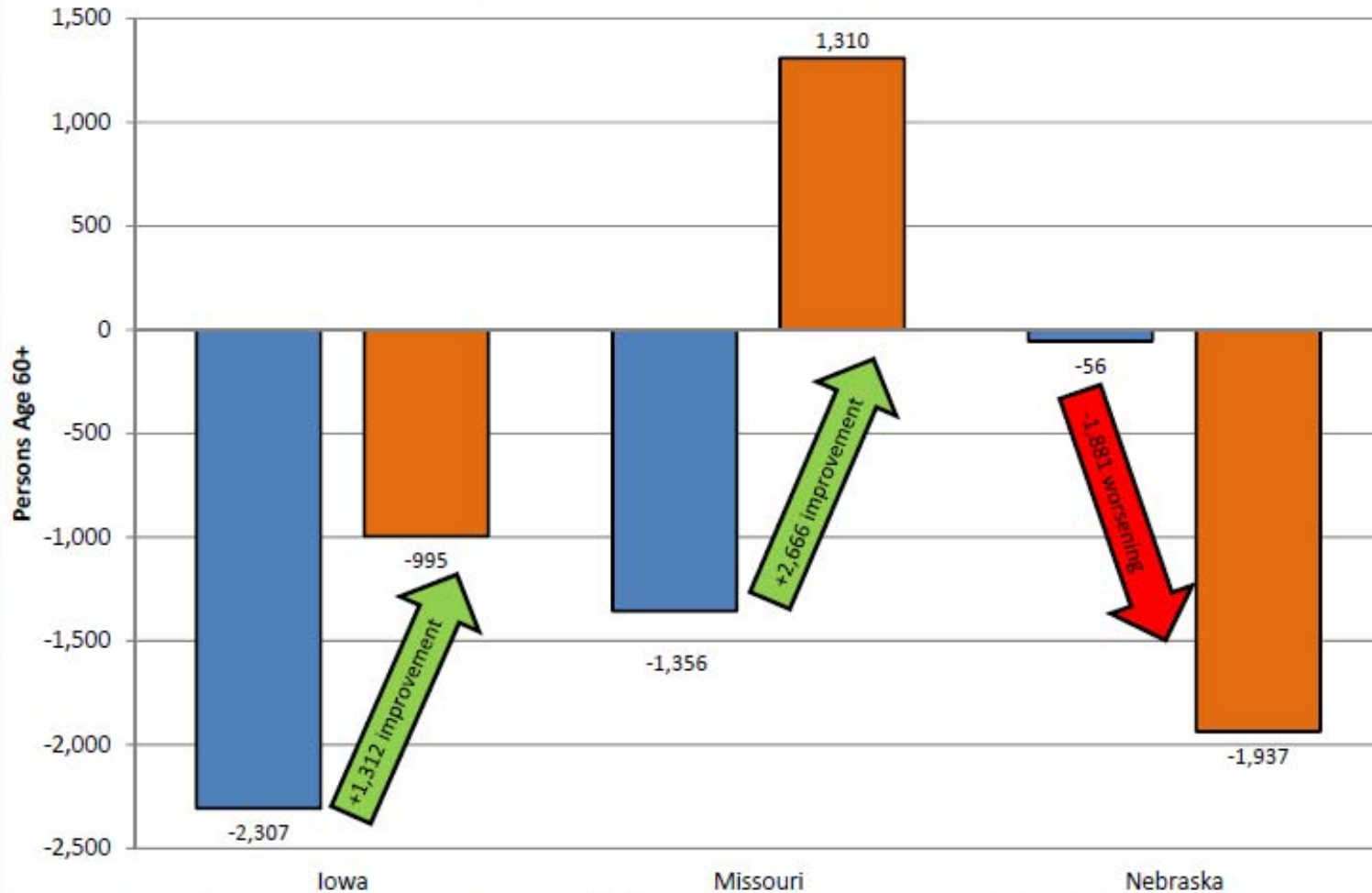
Conclusion: Nebraskans generally are here to work; less likely to retire here.

* "Retirement, survivor or disability benefits (pensions) from companies/unions, fed/state/local gov't, and the military."

Older Migration in Iowa/Missouri Improving as Tax Phased Out



Net Domestic Migration of Those Age 60 or Older: 2011 vs. 2012



Sources: Tables B07001 and B07401, 2011 and 2012 American Community Surveys, U.S. Census Bureau

2011 2012

Prepared by: David Drozd, Center for Public Affairs Research, University of Nebraska Omaha

Economic impact of losing retirees

- Population in Nebraska (2010 Census)
 - 50-55 yrs old = 155,277
 - 56-60 yrs old = 113,967
 - 61-65 yrs old = 89,014
 - **TOTAL = 358,258**
- If 10% of the total leaves the state at retirement, that would be 35,825 people
 - At \$35K per person = \$1.25 billion in “lost income” per year!
 - At \$45K per person = \$1.61 billion in “lost income”

Economic impact of retaining potential retirees

- Population in Nebraska now:
 - 50-55 yrs old = 155,277
 - 56-60 yrs old = 113,967
 - 61-65 yrs old = 89,014
 - **TOTAL = 358,258**
- If 1% of the total does not leave the state at retirement, that would be 3,582 people
 - At \$35K per person, that would be \$125 million added to economy each year!
 - At \$45K per person, it adds \$161 million

Key facts about retiree income

- **Social Security was not taxed until 1984**
 - Federal tax used to fund Soc. Sec.
- **Federal tax increased in 1993**
 - Federal tax used to fund Medicare Part A
- **Original federal income threshold to tax Soc. Sec. was \$25,000 (single filer)**
 - If indexed for inflation, that would be \$51,000 now

Importance of retirees in NE

- **Retirees are important to Nebraska**
 - **\$800 million from retired public employees pensions brought into state each year**
 - **Social Security income and Medicare income are even more important – approximately \$6.7 Billion per year**
 - **Retirees volunteer in communities to improve life for all**
 - **Rural medical care depends on retiree \$**

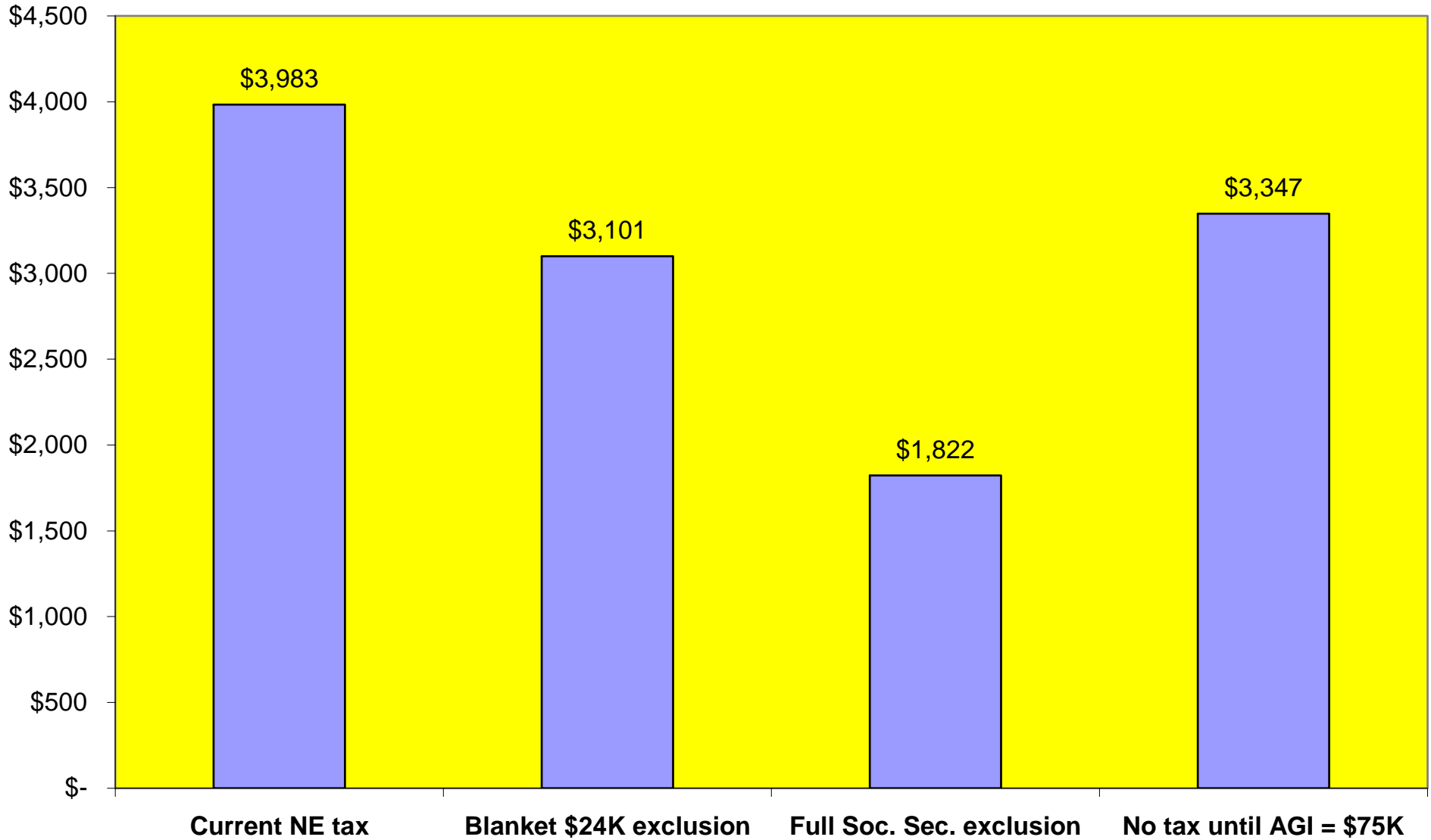
Tax burden shifted to retirees

- **Retirees bear an increasing burden to finance the state from limited incomes**
 - **In 2002, 47% of retirees were taxed by Nebraska on their Social Sec. income**
 - **In 2011, 63% of retirees were taxed by Nebraska on their Social Sec. income**

Potential tax solutions for NE

- Four different tax scenarios were studied
 - Current NE tax system
 - \$24K “blanket exclusion” of retirement income (as in CO)
 - Full Soc. Sec. exclusion for taxation
 - Phase-out of tax with cap of \$60K for singles and \$75K for couples (MO)

Nebraska Tax Liability on \$97,800 AGI for couple



Lobby Day 2014

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Retirement income facts

- **Retiree income is “green income”**
 - No pollutants to air or water
 - No additional infrastructure needed
 - “New money” to state from outside sources
- **Each \$1 of retiree income produces \$1.32 in economic value in state**
 - For Soc. Sec., ~ \$2 for every \$1 of income
- **Retirees provide JOBS for Nebraskans**

Why other states try to attract retirees

- Retirees add new money to the state economy that produces high employment multipliers (AL)
 - \$4,000 in Social Security creates one job, while \$65,516 in ag. or \$91,743 in mfg. creates one job
- “Retirement industry” boosts local economy and increases the tax base – states recruiting retirees to relocate (especially baby boomers) = FL, GA, TN, NC
- If Nebraska increased retiree percentage from 15% to 16%, that would add 17,600 retirees and \$323 million in annual money from Social Security and Medicare – could create 3,233 jobs

FEE “Simple Solution”

- **F**airness to retirees
 - Is taxation of retiree income fair?
- **E**quity for retirees
 - Is current taxation equitable with other states?
- **E**conomic impact on state
 - What is the economic impact of both pension income and “lost pension income?”

Where do we go from here?

“Social Security and public pensions were intended to keep our elderly and disabled citizens out of poverty. They were never intended to be a source of revenue for the states.”



Options considered by Tax Modernization Committee

- Currently this is no Soc. Sec. tax if benefits are less than \$25,000 (single) or \$32,000 (joint)
 - 50% of the benefits are taxable above \$25K (single) or \$32K (joint)
 - 85% of the benefits are taxable above \$34K (single) or \$44K (joint)

Policy Options:

- **Exempt all Social Security benefits from income tax**
- Exempt all Social Security benefits for income below \$57K (single) or \$62K (joint)
- Raise federal thresholds for NE tax to \$30K (single) and \$37K (joint) for no tax; tax 50% of benefit above that; tax 85% of benefits above \$40K (single) or \$50K (joint)

“BELOW-THE-LINE” Adjustments

Nebraska Adjustments DECREASING AGI

- State Income Tax Refund Deduction
- Exempt U.S. Government Obligations
- Federally Taxable Tier I And Tier II Railroad Retirement Benefits
- Special Capital Gains Exclusion
- Nebraska College Savings Contributions

Key info about retiree taxes

- Railroad workers have Railroad Retirement instead of Social Security
 - Avg. Soc. Sec. benefit = \$17,201
 - Avg. Railroad Retirement benefit = \$26,736
 - Source: Social Security Administration for worker born in 1943 and retiring at age 66
- Railroad Tier I and Tier II benefits are subtracted from AGI before calculating Nebraska Income Tax liability

Ask for equal treatment for Social Security

LB 987

(Revenue Committee bill)

- Adjusts income brackets for inflation (current rates below)

Taxable Income	NE tax rate
< \$2,400	2.5%
Up to \$17,500	3.5%
Up to \$27,000	5.12%
> \$27,000	6.84%

- Exempts Social Security income from state tax if:
 - Single making less than \$43,000
 - Married making less than \$58,000

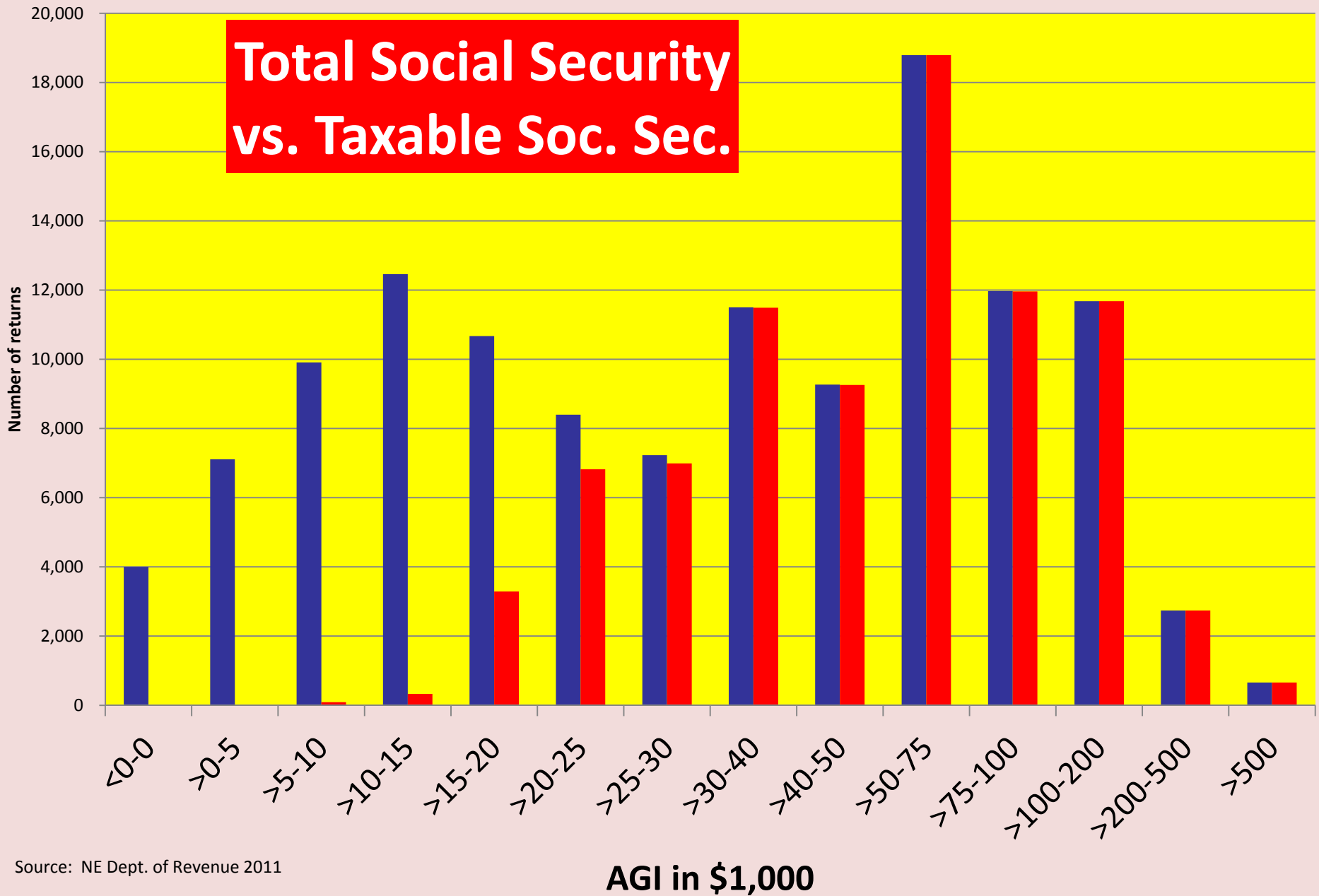
Recommendation:

- Raise income thresholds to:
 - Single making less than \$60,000
 - Married making less than \$75,000
- Index threshold floors for inflation
- Provide gradual taxation of income over threshold limits:

Single Income	Joint Income	% of Soc. Sec. taxed
< \$60,000	< \$75,000	0%
\$60K-\$65K	\$75K-\$80K	20%
\$65K-\$70K	\$80K-\$85K	40%
\$70K-\$75K	\$85K-\$90K	60%
\$75K-\$80K	\$90K-\$95K	80%
> \$80K	> \$95K	100%

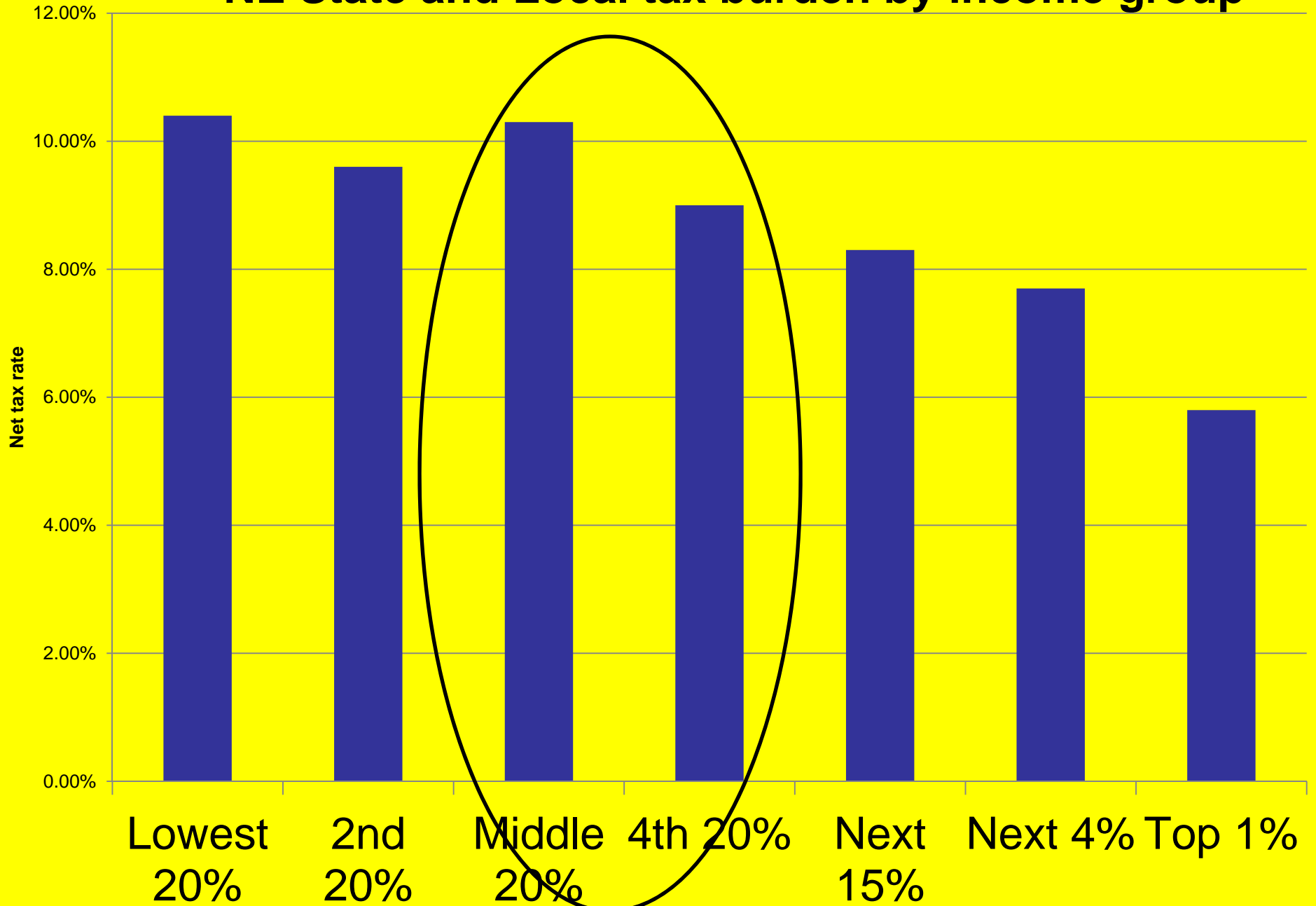
Lobby Da

■ Total Soc Sec returns ■ Taxable Soc Sec returns

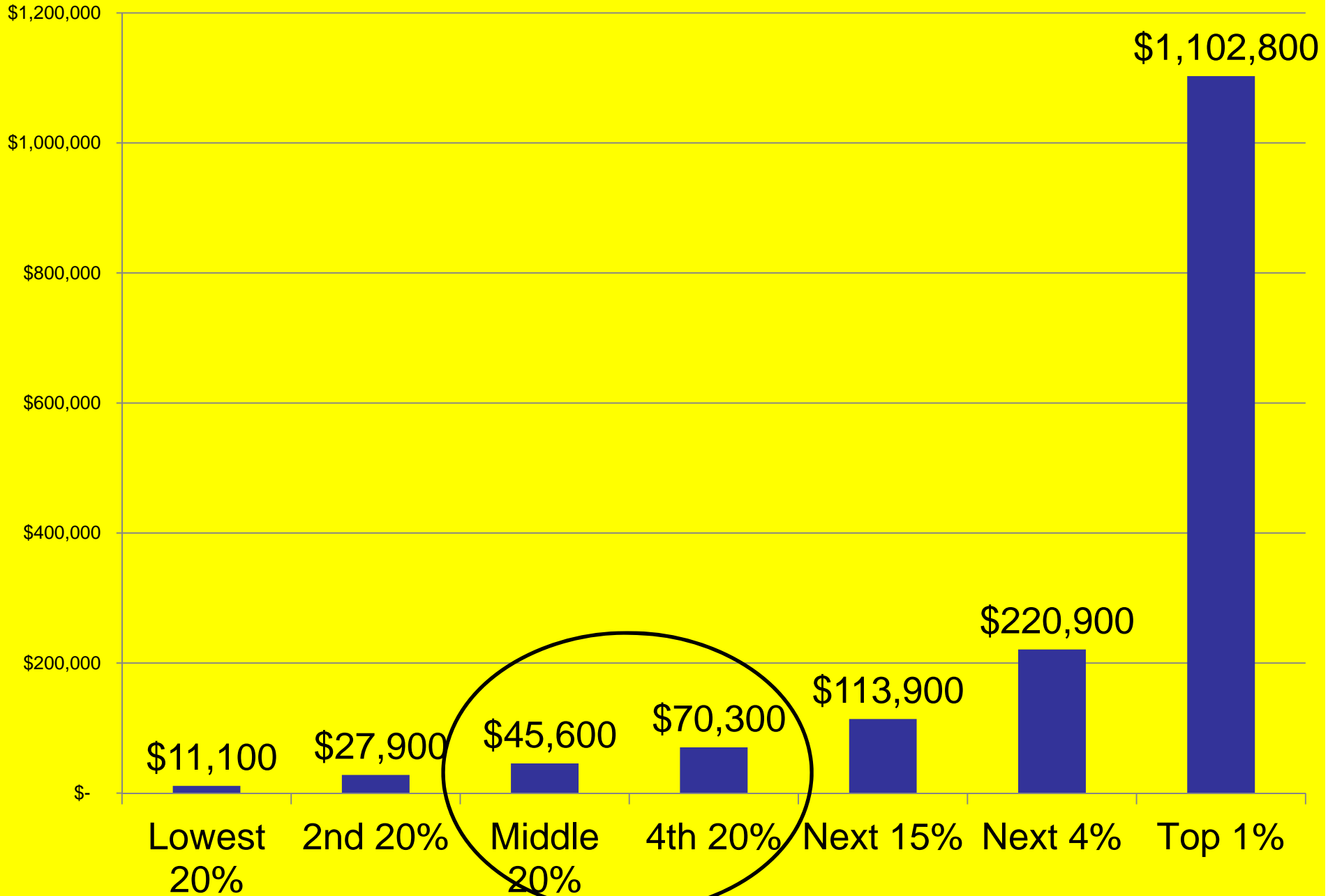


Source: NE Dept. of Revenue 2011

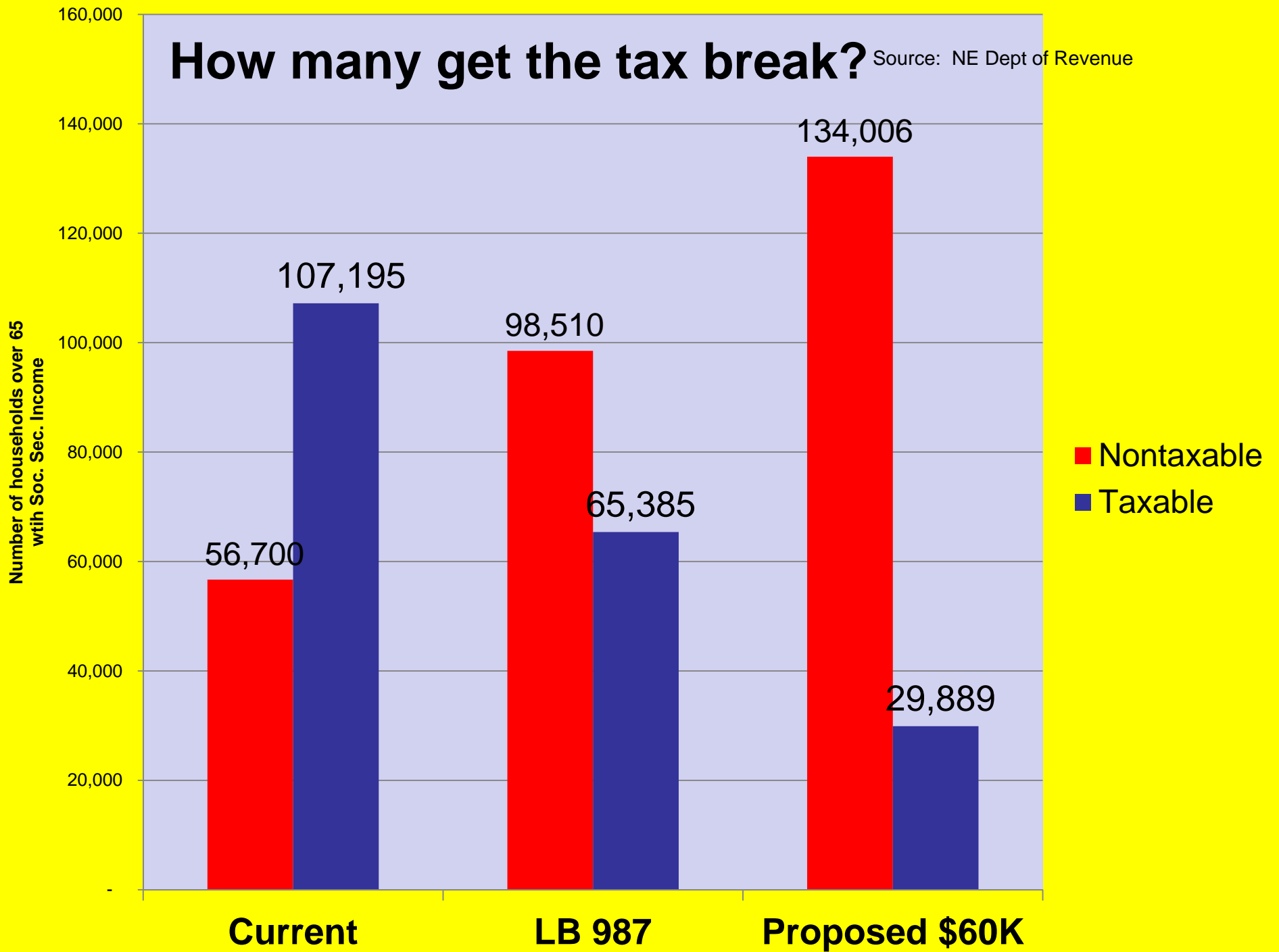
NE State and Local tax burden by income group



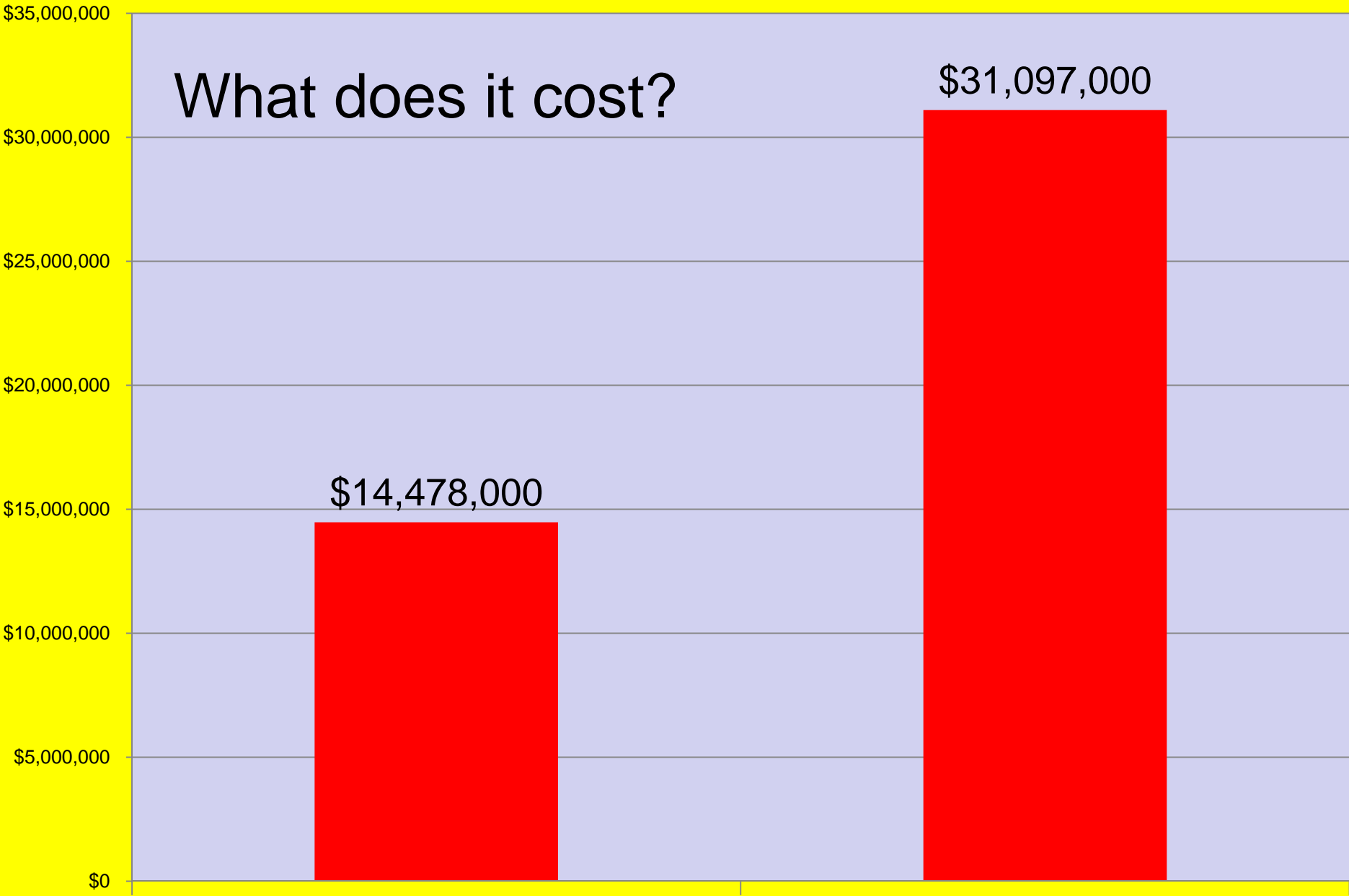
NE Average income by quintile



How many get the tax break? Source: NE Dept of Revenue



Loss in revenue



Source: AARP Nebraska

LB 987

Proposed \$60K

Coalition has been formed to make Nebraska more “retiree friendly”

Coalition members include:

- NSEA-Retired
- NSEA
- NARSP
- AARP Nebraska
- NAPE/AFSCME
- NARFE
- NACO
- Alliance for Retired Americans
- Bold Nebraska

We are working to expand the list!