



The Maryland Federation of the National Active and Retired Federal Employees Association (NARFE) urges the Maryland General Assembly to adopt House Bill 189, Income Tax – Subtraction Modification – Retirement Income. Testimony of Robert N. Goldberg on behalf of the State Legislative Committee of NARFE.

SUMMARY

The Maryland Federation of the National Active and Retired Federal Employees Association (NARFE) works for legislation in Maryland on behalf of the approximate 300,000 federal employees and annuitants and the more than 800,000 seniors aged 65 and older in the state. One of the principal goals of NARFE Maryland is to reduce the tax burden on seniors living on retirement income. Indeed, Maryland has one of the highest costs of living in the nation, which discourages “aging in place” and encourages migration to senior friendly states. Other states actively recruit seniors with tax incentives because they recognize the value of seniors as economic engines for job and revenue generation. Thus, nine states do not have any state income tax and 14 states exempt all or part of federal pensions from state and local taxes (see figure 1 below). *The remainder of this document summarizes the cost to Maryland of senior migration - it is very large.* It is clear that Maryland needs to do something about this problem and doing something is in everyone’s interest! House Bill 189 broadens the definition of retirement plans that qualify for subtraction under the Maryland tax code. What is being proposed is the allowance of §408 retirement plans as a retirement subtraction if the retirement plan consists entirely of the tax-free rollover of distributions from an employee retirement system. Since employee retirement systems already qualify for the subtraction exclusion, the bill brings about a very much needed sense of fairness to the Maryland tax codes. NARFE is pleased to support this legislation.

THE COST OF SENIOR MIGRATION TO MARYLAND

Maryland had larger-than-average population losses, i.e., 59,432 residents in the 65 to 74-year old age group between 2012 and 2017,¹ for an average annual loss of 11,886 seniors in this age group. Using the age distribution of seniors given in “Population Demographics for Maryland 2020, 2019”,² the annual loss of seniors of all ages for Maryland is 21,544. This loss in population results in a loss of adjusted gross income from Maryland – see figure 2. In fact, the data shows that this loss of population has a substantial and detrimental impact both on Maryland’s economy and on the amount of federal grants that Maryland receives (see below). Thus, reform on senior taxation by the Maryland state legislature is in Maryland’s best interest.

Impact on Maryland’s economy. A study³ commissioned by Maryland’s governor and General Assembly found: “For every new elderly household moving into Maryland,

- one-half of a job is supported.

- over \$65,000 in new income per household is created,
- nearly \$10,000 in state and local tax revenues are generated,
- over \$5,000 in local tax revenues are generated, and
- over \$800 in local tax revenue surplus is generated.”

These values are from the year 2006 and are based on an economic model (the IMPLAN input/output model). Adjusting for inflation,⁴ the following values for the respective economic cost to Maryland in the year 2021 are, respectively, \$85,800, \$13,200, \$6,600, and \$1,056. Additionally, Maryland had larger-than-average population losses, i.e., 59,432 residents in the 65 to 74-year old age group between 2012 and 2017,¹ for an average annual loss of 11,886 seniors in this age group. Using the age distribution of seniors given in “Population Demographics for Maryland 2020, 2019”,² the annual loss of seniors of all ages for Maryland is 21,544. This impact on Maryland’s economy is shown in the following table.

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|---|--------------|--|
| For every new senior household moving into Maryland, the economy benefits | 2006 dollars | With the loss of one senior household, Maryland’s economy is hurt [†] |
| One-half of a job is created | | One-half of a job is lost |
| New income | \$65,000 | -\$85,000 |
| State/local tax revenue generated | \$10,000 | -\$13,200 |
| Local tax revenue generated | \$5,000 | -\$6,600 |
| Local tax revenue surplus | \$800 | -\$1,056 |

[†]Adjusted for inflation to 2021 dollars⁴

We estimate an annual loss of circa \$194,000,000 to the Maryland and county treasuries due to senior migration. This estimate is made by multiplying the \$13,200 (see table above) for state and local tax revenues generated (or lost) by 21,544, the annual loss of seniors of all ages for Maryland, and then by dividing by 1.47, an estimated value⁵ for the size of a senior household. It should be recognized that a senior who migrates from Maryland pays no taxes in Maryland and no longer contributes to its economy. Additionally, the economic impact due to loss of seniors extends to all parts of Maryland’s economy. *These economic effects are cumulative.*

Impact on federal grants. Maryland seniors who move out of state will impact negatively the federal grant amounts for Maryland. These grants are made through block grant programs in which each state receives a set amount of money from the federal government. The amounts of the block grants can be based on per capita or on the needs of the state. This includes SNAP (Supplemental Nutrition Assistance Program) and Medicaid. A study from the George Washington University Institute of Public Policy⁶ states: “In Fiscal Year (FY) 2017, 316 federal spending programs relied on 2010 Census-derived data to distribute \$1.504 trillion to state and local governments, nonprofits, businesses, and households across the nation. This figure accounted for 7.8 percent of Gross Domestic Product in FY2017. The bottom line: It’s a lot of money, it’s complicated, and it depends. In other words, census-guided spending makes up a large portion of the economy, the role of census-derived data in guiding that funding is not simple by any means, and the sensitivity of census-guided funding on state and local census accuracy differs greatly from program to program. In FY2016, Maryland received \$16,300,000,000 through federal spending programs guided by data derived from the 2010 Census.”⁶ Dividing this value by a Maryland population of 5,773,552,² one arrives at the amount of \$2,823 per person. Then, using the value of 21,554 for annual senior migration from Maryland (see above), the annual economic cost to the Maryland treasury due to loss of federal grants that are based only on population is \$61,000,000.

Additional negative impacts. In addition to the losses due to decreased economic activity, loss of federal grants funds, and inability to tax those who have left Maryland (this includes snowbirds), there are

other negative impacts to Maryland from losing seniors to other states that are not easy to assign dollar values to, such as the following.

- Seniors leaving the state can affect the number of *representatives in Congress* which depends on the state's population.
- Seniors are a major source of *volunteer efforts* which enhance the quality of life in Maryland.
- Seniors do not have *children in school*.
- Seniors vote at a very high rate*.

What Needs To Be Done To Reverse this Trend

The Maryland NARFE Federation urges the Maryland General Assembly to adopt legislation to eliminate or significantly reduce taxes on all sources of retirement income, and allow Maryland to compete aggressively with other more senior friendly states.

References:

1. James Palma, *A Review of Migration Trends in Maryland*, Maryland Department of Commerce, Baltimore, Maryland (2018).
2. Population Demographics for Maryland 2020, 2019, <https://suburbanstats.org/population/how-many-people-live-in-maryland>.
3. *The dynamics of elderly and retiree migration into and out of Maryland task force report – A Report to Governor Robert L. Ehrlich, Jr. and the Maryland General Assembly (2006)*.
4. <https://www.inflationtool.com/us-dollar/2006-to-present-value>.
5. <https://www.jchs.harvard.edu/blog/the-number-of-people-living-alone-in-their-80s-and-90s-is-set-to-soar>. The value 1.47 is estimated from the data given in this report.
6. George Washington University Institute of Public Policy, <https://gwipp.gwu.edu/counting-dollars-2020-role-decennial-census-geographic-distribution-federal-funds>.

STATE TAX TREATMENT

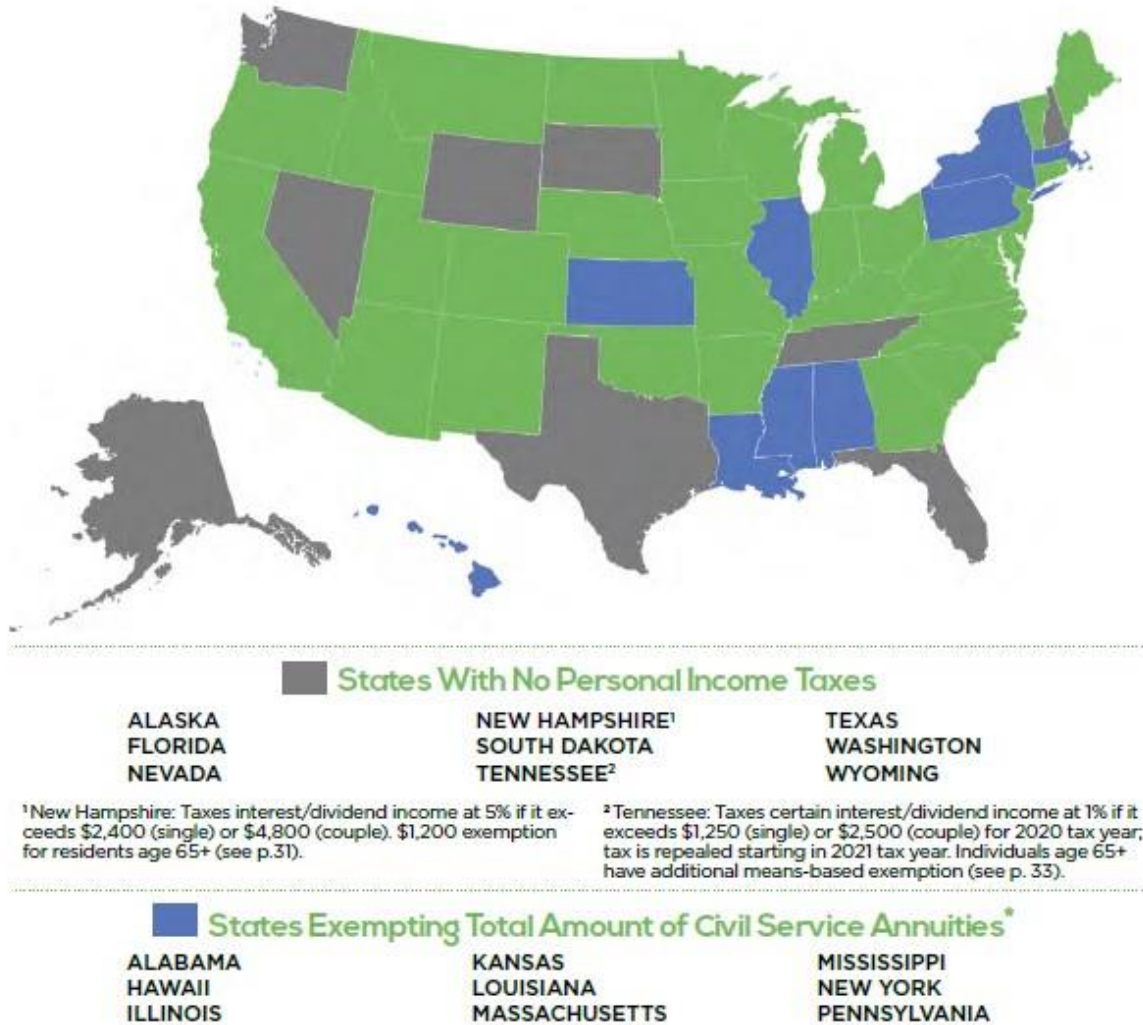
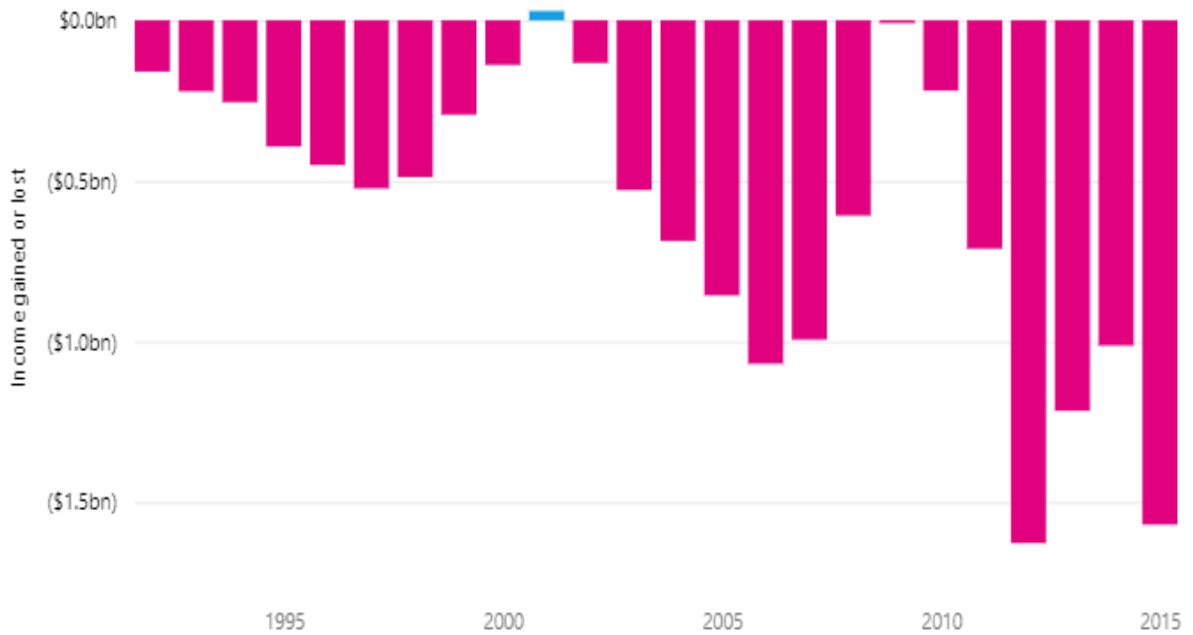


Figure 1. State taxation of retirement income. Source: National Active and Retired Federal Employees Association magazine, April 2021.

Maryland's Gain/Loss of Adjusted Gross Income



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|--------------|---------|
| 1992 to 2000 | 2.6 B\$ |
| 2001 to 2010 | 5.0 B\$ |
| 2011 to 2015 | 6.0 B\$ |

Figure 2. The loss of adjusted gross income from Maryland from 1992 to 2015. Blue is gain. Red is loss. Source: <https://usafacts.org/articles/interstate-population-migration/> based on data from the IRS Statistics of Income Division.