MD NARFE
FEDERAL BENEFITS EXPERTS
MARYLAND FEDERATION

Statement of the Maryland Federation of
National Active and Retired Federal Employees
House Ways and Means Committee Hearing, February 15, 2024
On HB 674 – Income Tax – Subtraction Modification – Retirement Income

(Position – FAV)

Good afternoon, Chair Atterbeary and Vice-Chair Wilkins and members of the Ways and Means Committee. My name is Robert M. Doyle and I am testifying on behalf of the State Legislative Committee of the Maryland Federation of the National Active and Retired Federal Employees Association (NARFE), representing approximately 317,000 federal annuitants and employees in Maryland. For the continuing protection and benefit of our senior membership as well as all Maryland seniors, we support – and ask you for a favorable report on – HB 674, Income Tax – Subtraction Modification - Retirement Income.

<u>What HB 674 Will Bring To Seniors</u>

Maryland now allows a pension exclusion for eligible taxpayers under which you can subtract some of your taxable pension and retirement annuity income from your Federal Adjusted Gross Income (FAGI), after any additions to MD income, to determine your Maryland Adjusted Gross Income (MAGI). While generally **employer-sponsored** pensions are eligible for the pension exclusion, generally **employee-sponsored** pensions are not. HB 674 will expand the current pension exclusion eligibility by allowing income from employee-sponsored pension plans to be included as "Qualified Retirement Plans" under the pension exclusion. These include:

1) Retirement plans qualified under sections 401(a), 403, and 457(b), of the Internal Revenue Code (IRC);
2) An Individual Retirement Account (IRA) under section 408 of the IRC;
3) A Roth IRA under section 408(a) of the IRC;
4) A rollover IRA; or
5) A simplified employee pension under section 408(k) of the IRC.

Currently, Maryland law provides a pension exclusion for individuals who are at least 65 years old or who are totally disabled. Under this exclusion, up to a specific maximum amount of taxable pension income ($36,200 per individual for 2023) is exempt from state income tax, by reducing your Federal Adjusted Gross Income and Maryland additions by the amount of your pension income up to the

2023 limit. The maximum allowed is indexed to the maximum annual benefit payable under the Social Security Act and is reduced by the amount of any Social Security payments received (Social Security offset).

This exclusion was originally enacted to benefit federal employees who prior to 1984, were covered under the Civil Service Retirement System and were not eligible to receive Social Security. Because Maryland does not tax social security, in the 1960's federal employees raised the issue that this was not equitable as they paid taxes on their pensions but retirees who retired on social security did not. The pension exclusion was enacted to remedy this inequity and allowed all retirees (not just federal retirees) to exempt from Maryland tax the amount equal to the maximum social security amount minus any social security received. Since 1984, federal employees are covered by social security and the prior inequity no longer exists.

Besides the expansion of the pension exclusion, Delegate Grammer's bill offers additional tax relief to all Maryland seniors. The bill alters the maximum exclusion amount for qualifying individuals to equal (1) $30% of qualified income in tax year 2024; (2) 60% in tax year 2025; and (3) 100% beginning in tax year 2026 and for future years. The maximum exclusion amount in each year is not reduced by the amount of Social Security payments received as provided under current law.

HB 674 offers fairness to all Maryland retirees by eliminating the pension exclusion penalty currently experienced by many Maryland retirees. Further, HB 674 offers real tax relief to Maryland seniors

We close by urging that keeping seniors in Maryland should be a matter of high priority for Maryland's legislators. NARFE supports HB 674 as a positive step in making Maryland not only a better place for our native retirees but also a solid choice for outside retirees looking for a worthwhile retirement state.

For the reasons in our statement, NARFE recommends that the Ways & Means Committee gives a favorable report to HB 674.

Thank you for the opportunity to testify today.

Background Information Supporting HB 674

Why Senior Tax Relief is Critical for Maryland

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! HB 674 would offer robust state income tax relief for seniors in Maryland, and would bring fairness to the Maryland tax codes. on.

THE COST TO MARYLAND OF SENIOR MIGRATION

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 study[3] 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.

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 dollars[4]

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 value[5] 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 Policy[6] 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.

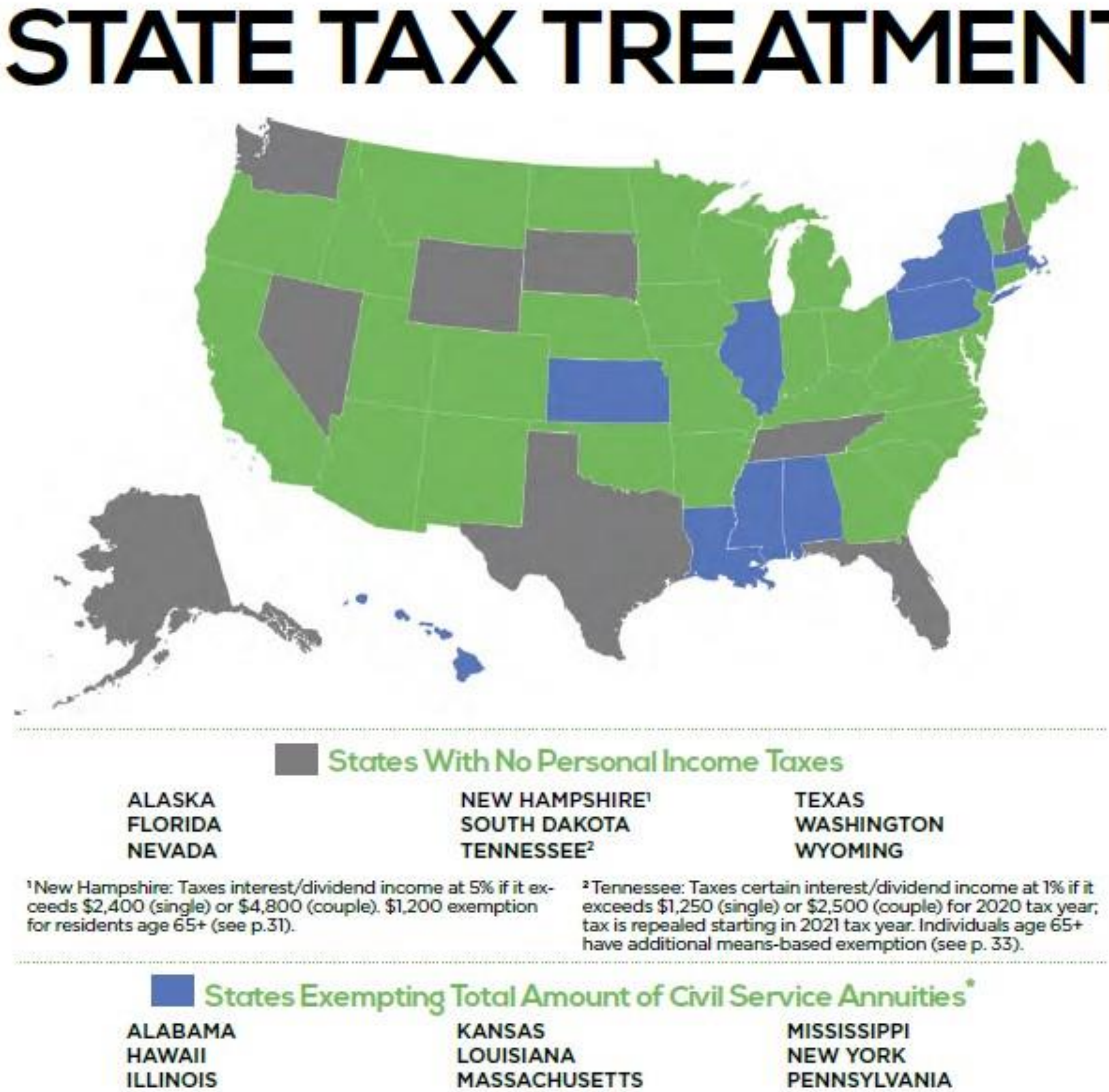
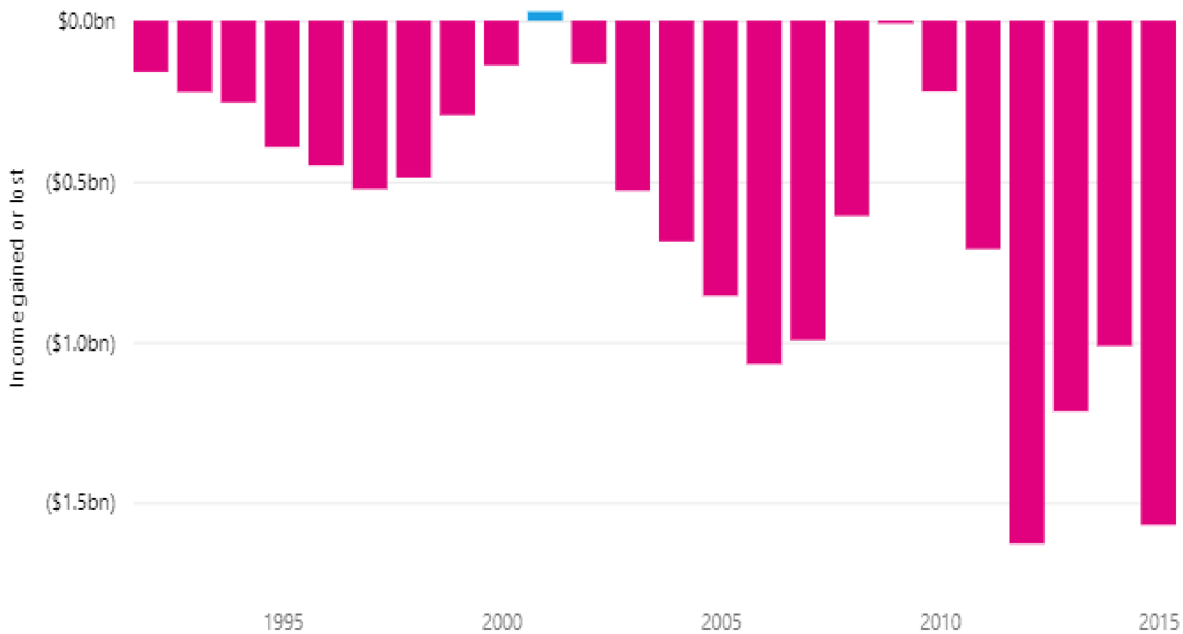


Figure 1. State taxation of retirement income. Source: National Active and Retired Federal Employees Association magazine, April 2021.

Maryland’s Gain/Loss of Adjusted Gross Income



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.