[LB17 LB74 LB238]

The Committee on Revenue met at 1:30 p.m. on Wednesday, January 30, 2013, in Room 1524 of the State Capitol, Lincoln, Nebraska, for the purpose of conducting a public hearing on LB17, LB238, and LB74. Senators present: Galen Hadley, Chairperson; Paul Schumacher, Vice Chairperson; Tom Hansen; Burke Harr; Charlie Janssen; Beau McCoy; Pete Pirsch; and Kate Sullivan. Senators absent: None.

SENATOR HADLEY: Good afternoon. Welcome to the Revenue Committee. We appreciate your being here. My name is Senator Galen Hadley from Kearney, and I'm the Chairman. To my left will be Senator Schumacher from Columbus, who is the Vice Chairman; to his left is Senator Pirsch from Omaha; and to his left is Senator Sullivan, who will be a few minutes late. On my far right is Senator Burke Harr from Omaha; next to his left is Senator Janssen from Fremont; to his left will be Senator McCoy from Omaha; and then Senator Tom Hansen from North Platte. Our committee counsel is Mary Jane Egr Edson to my right, and Bill Lock is the research analyst. Matt Rathje is the...to my far left is our committee clerk. Our pages are...I have the note right here, Nathan Funk from Norfolk and I think he's alone today. I think the weather got him. If you would please turn off your cell phones and put on vibrate while in the hearing room, I'd appreciate that. The sign-in sheets are in the back, so if you plan to testify I would appreciate if you would fill out a sign-in sheet and, please, it will be given to the committee clerk when you come up. The LB on it is not your weight and the LR doesn't mean left or right. That has to do with the bills. If you're testifying on more than one bill, you will need to submit a form for each bill. Please print and complete the form prior to coming up. When you come up to testify, hand your testifier (sic) to the clerk, to the committee clerk. I would also ask you to please, and I emphasize this, to state and spell your name. We need this for the transcript so that we have an official record. So if you don't do it, I will remind you to do it. There are also clipboards in the back of the room to sign if you do not wish to testify, but like to indicate your support or opposition to a bill. These sheets will be included in the official record. We follow the agenda posted on the door. The introducer or representative will present the bill, followed by proponents, opponents, and neutral. Only the introducer will have the opportunity for closing remarks. If you have handouts, please bring ten copies for the committee and staff. If you only have the original, we will make copies. Give the handouts to the page to circulate. I am not going to use the light system today, but I would hope that you would keep your comments succinct and to the subject that we're talking about. And please don't feel offended that if I feel you're wandering a little or straying a little, I might say, it might be time to wrap it up, but I don't want to rush anybody in doing it. And lastly, there's nothing wrong in getting up and saying, I agree with the testifiers that went before me. That is very permissible also. With that, we'll turn to our first bill and I see Senator Nordquist from Omaha, who has graced us with his beaming smile, in the Revenue Committee.

SENATOR NORDQUIST: That's very nice of you to say, Mr. Chairman.

SENATOR HADLEY: Senator Nordquist, welcome to the Revenue Committee.

SENATOR NORDQUIST: Thank you. What a good looking committee. Here before you today to introduce LB17, which is a bill that would update the income thresholds under which a person would not pay state income tax on Social Security benefits. For those of you that have been on this committee for the past few years, you know since my first year down here in 2009, I've had legislation pending before this committee every year regarding the taxation of Social Security benefits in trying to reduce or eliminate that taxation. To explain this bill, I'll give you a quick historical perspective. Up until 1984, Social Security benefits were completely exempt from federal and, subsequently, state income tax. Beginning in 1984, Social Security benefits became taxable for individuals whose income exceeds $25,000 and that threshold that's for married couples is set at $32,000. In LB17, we use income thresholds of $80,000 for married couples and $60,000 for individuals as a proxy for the original exempt levels of income tax plus inflation. So essentially, we went back to the 1984 levels, said, if those were indexed for inflation at the time, what would they be today, and that's where the numbers we came up with in the bill today. Obviously, holding those numbers static since 1984 has resulted in a higher percentage of individuals not be qualifying for exempt, for their taxes on Social Security benefits to be exempt. In 1998, only 26 percent of Social Security recipients were subject to taxation. The number we got...the most recent number that we could come up with was in 2005, the number that we came up with was 39 percent. Last year, I was before this committee with a bill to fully exempt Social Security benefits realizing that the fiscal note on that bill at the time was probably not realistic, but I wanted to put it out there to let the committee at least chew on it and decide which direction they would want to go. During that hearing, Senator Hadley, in his wisdom, asked me whether or not we should, as a priority of the state, eliminate taxes on Warren Buffett's Social Security, and I probably didn't have the best answer. I probably said, maybe that isn't a top priority to cut taxes on Warren Buffett's Social Security at the time. So what I come back with this year in this bill, LB17, is an attempt to bring a more targeted tax relief that focuses, at least the initial piece. I would hope in the long run we can work towards, like our neighboring states, to eliminate taxes on Social Security benefits, but at least this would be a step--again, the fiscal note on this one is still awfully large--but a step to eliminate taxes at least for lower and lower middle-income, Nebraska seniors. I strongly feel, by putting money into their pockets, that is money that will be spent on every main street across our state and create instant economic activity. Under LB17, 100 percent of the tax relief would go, as I said, to low and middle-income Social Security beneficiaries. And as I said, this is just a first step. I know that $31 million in the long run of a fiscal note is a big amount, but certainly willing to work with the committee. Last year when I had the bill, I worked closely with Senator Cornett and Mello and McCoy as we narrowed the Governor's tax package down, I was hopeful to get a small piece in at that time. Because of the size of that package, trying to keep it around $50 million, we weren't able to find a reasonable approach to include that in there at that time, but I do think moving forward this should be a part of any tax discussions. Thank you. [LB17]

SENATOR HADLEY: Thank you, Senator Nordquist. Are there questions? Senator Harr. [LB17]

SENATOR HARR: Thank you, Mr. Chairman. First of all, could you spell your last name for the record? [LB17]

SENATOR NORDQUIST: That is not...I'm no relation to Grover. There is a D in my last name, N-o-r-d-q-u-i-s-t. [LB17]

SENATOR HARR: Thank you. [LB17]

SENATOR NORDQUIST: But we are both trying to cut taxes on some people, so. [LB17]

SENATOR HARR: If you compare last year's plan to this year's plan, would you say last year's was bold and this year's is less bold? [LB17]

SENATOR NORDQUIST: This is probably more practical, yeah. [LB17]

SENATOR HARR: Okay. [LB17]

SENATOR NORDQUIST: Yeah. [LB17]

SENATOR HARR: On a serious note, though, you talk about how this references back to 1984 and you're trying...if you had had CPI built into it, this is what that number would be. [LB17]

SENATOR NORDQUIST: Uh-huh. Yep. [LB17]

SENATOR HARR: My question is, why did you not include a CPI in your bill, Consumer Price Index variable, so it can rise with it? [LB17]

SENATOR NORDQUIST: Probably to control...I think probably to control costs. I mean to...eventually I'd like to see a complete phaseout. Iowa did over five years. I think Missouri did something similar, but to control costs. I mean, it would...the cost... [LB17]

SENATOR HARR: Okay. Would you be amenable to that amendment? [LB17]

SENATOR NORDQUIST: Oh, absolutely, yeah. And if we're looking at something smaller in this biennium, you know, maybe $60,000 and $80,000 are too high for us to take in one bite but maybe we do a couple of steps and add a CPI at that point. But, yeah, absolutely. [LB17]

SENATOR HARR: All right. Thank you very much. [LB17]

SENATOR HADLEY: Senator Pirsch. [LB17]

SENATOR PIRSCH: Thanks. Appreciate it. Could you just talk about your goals in doing this. What's this to achieve ideally? [LB17]

SENATOR NORDQUIST: Well, I think, certainly the issue for me introducing this every year I've been down here, some form of it, is to make our state more retiree friendly. We know from national rankings, Kiplinger had us third-worst tax climate for retirees. I think we're still in the top ten worst. I haven't seen the most recent report on that. We're one of only five states that taxes Social Security benefits to the same extent as the federal government. So I think there is a level of tax fairness that we're trying to achieve here. Serving on the Appropriations Committee, I surely know that we can't give away this all in one year. I'm trying to find some avenue to phase it in. And I think if we do a phase-in, I would much rather target that phase-in initially at lower income levels and build it up rather than saying everyone, including Warren Buffett's Social Security, is going to be...10 percent of that can be exempt. I don't know that we get the same bang for our buck as if we would begin to phase it in at lower income levels. [LB17]

SENATOR PIRSCH: Yeah. Has anybody took a look at impaired...you know, as we're out campaigning we do talk to individuals anecdotally who indicate, you know, that they're either, you know, compelled to or will be moving to other states and they mention the tax environment. But... [LB17]

SENATOR NORDQUIST: Uh-huh. [LB17]

SENATOR PIRSCH: ...has there been any objective kind of studies, empirical studies that talk about specifically for the state of Nebraska the, you know, what it means in terms of people moving from the state or potentially people moving to the state. [LB17]

SENATOR NORDQUIST: I don't know if they'll be testifying on my bill. I know they may be testifying on one of the other ones. But certainly there's been look at census data, but I don't know we've ever had any statically significant research that asks seniors whether or not that is their driving factor. There are obviously a lot of factors in making those decisions, including family. Family is probably the biggest one, climate. I mean, there's a number of things. But I would say for me it's a matter of tax fairness and also getting, you know, dollars in the hands of low-income seniors that we know need it. I don't know with this version here, it can easily...the case can easily be made that this isn't probably going to keep people here, because if you're a low-income senior, you probably don't have the resources to leave the state and an extra $300, $400 of tax relief isn't going to, you know, move you one way or the other. So I don't know that this is a...would turn on a magnet and make us, you know, that much more attractive to bring people in from other states. I think it's a matter of protecting those people that are here. [LB17]

SENATOR PIRSCH: Okay. Thank you. [LB17]

SENATOR HADLEY: Senator Schumacher. [LB17]

SENATOR SCHUMACHER: Thank you, Chairman Hadley. Senator Nordquist, low-income senior,... [LB17]

SENATOR NORDQUIST: Uh-huh. [LB17]

SENATOR SCHUMACHER: ...senior making $32,000 a year is low income? [LB17]

SENATOR NORDQUIST: They would certainly be, well, our lowest 20 percent of Nebraskans make below $20,000 a year, so they would certainly be in the low...they probably would be in the 30th percentile or below. [LB17]

SENATOR SCHUMACHER: But that's of all people. [LB17]

SENATOR NORDQUIST: Yeah. [LB17]

SENATOR SCHUMACHER: Retirees, $32,000 a year is low income for a retiree. They don't have to pay anything, though, up to $32,000 for a couple. [LB17]

SENATOR NORDQUIST: True. [LB17]

SENATOR SCHUMACHER: That's a pretty good nest egg, interest on a pretty good nest egg. [LB17]

SENATOR NORDQUIST: True. I do think that that...I do think that, you know, that seniors would still, I mean, a lot of people would still struggle on an income like that. [LB17]

SENATOR SCHUMACHER: In trying to develop some tax policy here, and I think you hinted a complete phaseout over five years, means no tax on Social Security over five years if you would take... [LB17]

SENATOR NORDQUIST: That's what Iowa did, yeah. [LB17]

SENATOR SCHUMACHER: Well, I mean, if Iowa jumped off a bridge, would we have to too? [LB17]

SENATOR NORDQUIST: No, certainly not. [LB17]

SENATOR SCHUMACHER: Okay. We've got this big glut of baby boomers hitting the system and looking to draw down on all the good things that they think they've been promised, probably a good percentage of them not having a pot or a window. And we've got this birth-control generation coming up next, that mathematically it's going to be tough for those kids to support us. How can we justify taxing those kids more, shifting the burden from folks making clearly over $32,000 a year in their retirement to those struggling families? [LB17]

SENATOR NORDQUIST: Well, I do think that a lot of seniors who are making, you know, if they're making slightly above what this cutoff would be, I think would turn their money around in our economy quickly. That's why I'm not interested in necessarily, at this point, in cutting taxes. Now granted, I did say I'd like to see a complete phaseout, but at this point, not cutting taxes on higher income seniors. And maybe there certainly is an argument $60,000 and $80,000 is probably still high-income seniors. But I think that economy turns...or that money turns around in our economy rather quickly on main street. I think most seniors living on $30,000, $40,000 a year are spending that money. [LB17]

SENATOR SCHUMACHER: If we've got to rob from somebody else to pay them, that's money that's not being spent on main street or raising the kids of the birth-control generation. [LB17]

SENATOR NORDQUIST: Yeah. [LB17]

SENATOR SCHUMACHER: So, I mean, do we...is there any real way that we can...even though we might want to, can do these kind of things? [LB17]

SENATOR NORDQUIST: Oh, I certainly think it's possible. Last year we passed a $50 million tax package and had we said instead of cutting those taxes we wanted to focus on making our state more retiree friendly, we easily could have done a big chunk. We could have done this entire bill instead of that tax bill. So it's decisions we make. Now, what's in the best long-term interest of the state, I don't know. I just think that this is an issue that needs to be on the table. We need to begin phasing it out from the bottom up if we're going to do it. [LB17]

SENATOR SCHUMACHER: Your choice--$30 million here, roughly what we'd have to pay for Medicaid expansion in three years. What's the choice? [LB17]

SENATOR NORDQUIST: Boy, that is a...that is a great question. I do certainly know that I am a strong proponent of Medicaid expansion and I certainly will show that, as I have at a press conference recently, that Medicaid expansion ultimately pays for itself because of savings in behavioral health and corrections and a number of other programs that we have. But, you know, this committee ultimately decides how much revenue our state has to spend, and I feel that seeing some of the tax exemptions that we've had over the past years move forward, and I certainly have voted for some of them, some of them are very big dollars to attract businesses to the state. You know, I think sometimes our seniors and certainly low-income seniors are not paid the attention that other parts of our state are, other segments of our economy are. [LB17]

SENATOR SCHUMACHER: Thank you, Senator. [LB17]

SENATOR NORDQUIST: Yeah. [LB17]

SENATOR HADLEY: Senator Nordquist, if I could ask you just a couple quick questions, then I'll go down the line. Just so we make sure that everybody understands, right now if you're married, filing jointly, $32,000 is exempted. Isn't that correct? [LB17]

SENATOR NORDQUIST: If your income is $32,000 and below, your Social Security is exempt. [LB17]

SENATOR HADLEY: And between $32,000 and $44,000, it's only half of it. [LB17]

SENATOR NORDQUIST: Half, yeah. Yeah, I did not...yeah, I didn't mention that. [LB17]

SENATOR HADLEY: And then above $44,000 it's 85 percent. [LB17]

SENATOR NORDQUIST: Yep, that's right. [LB17]

SENATOR HADLEY: Okay. Secondly, some of us are old enough that we get a nice magazine from AARP and I read it religiously. And I think not too long ago they talked about the top ten affordable cities to retire in and I believe number eight... [LB17]

SENATOR NORDQUIST: Uh-huh, Omaha, yeah. [LB17]

SENATOR HADLEY: ...was Omaha as in the top ten cities in the United States to retire in and on $100 a day, $36,500, as a place to retire. And that would, if you're a married couple, that means effectively you were paying very little of your Social Security, is subject to taxation for that amount. Is that correct? [LB17]

SENATOR NORDQUIST: If your income was what? [LB17]

SENATOR HADLEY: $36,500. [LB17]

SENATOR NORDQUIST: Yeah, then only half of your income, half of your Social Security would be... [LB17]

SENATOR HADLEY: Over $32,000, so about $2,000 of your Social Security would be taxed. [LB17]

SENATOR NORDQUIST: Yep, yep. [LB17]

SENATOR HADLEY: And I just...you know, I went back and reread the article again... [LB17]

SENATOR NORDQUIST: Sure. [LB17]

SENATOR HADLEY: ...about the ten most affordable cities to retire in. [LB17]

SENATOR NORDQUIST: Certainly there's no question that we enjoy a great cost of living in Nebraska. We often hear, and certainly heard from our Governor, though, that we are a high-tax state and those taxes fall on everyone a little differently. And when we are out of line with 45 other states on taxing our Social Security benefits, I think we need to... [LB17]

SENATOR HADLEY: Okay. Just lastly, I do appreciate your bringing this in and our conversation last year. I think we're moving in a direction to have serious conversation about it. [LB17]

SENATOR NORDQUIST: Yeah, absolutely. [LB17]

SENATOR HADLEY: Senator Hansen, did you... [LB17]

SENATOR HANSEN: Yes, thank you. Senator Nordquist, do you have, I mean, we've seen the fiscal note, do you have any way to estimate how we could get that back? Through growth? I'm not sure seniors are going to bring that much more than they are now, so how do you plan on replacing that portion? [LB17]

SENATOR NORDQUIST: Well, as a former member of Appropriations, you know that when tax bills are out on the floor like we did last year, we, as a body, we decided that we were willing to give up that revenue. And as an Appropriations Committee then we were forced or we had to put out a budget that took that into account. If this committee were willing to move forward with this or a smaller version of this and there was a sense that the entire bill would be, we would have to make those changes in our budget. That revenue obviously will come from human services, higher education, a number of big areas in our budget. [LB17]

SENATOR HANSEN: Okay. You said earlier that the expansion of Medicaid is going to save enough money in the state if...how many more federal programs would it take to balance our budget at that rate? [LB17]

SENATOR NORDQUIST: It's kind of the John Wightman statement. We can't... [LB17]

SENATOR HANSEN: Okay. Thank you. [LB17]

SENATOR HADLEY: Senator Harr. [LB17]

SENATOR HARR: Thank you, Senator Hadley. And I just want to clarify the record, and Senator Hadley asked most of the questions I wanted to. But you constantly refer to seniors and low-income seniors. This applies to all people who receive Social Security benefits, not just seniors? [LB17]

SENATOR NORDQUIST: That's right. That's right. Yes. [LB17]

SENATOR HARR: Okay. That's all I wanted to know. [LB17]

SENATOR HADLEY: Anything else? Thank you, Senator Nordquist. [LB17]

SENATOR NORDQUIST: Thank you. [LB17]

SENATOR HADLEY: Are you going to... [LB17]

SENATOR NORDQUIST: I will be here. [LB17]

SENATOR HADLEY: You'll be here for closing. Okay. [LB17]

SENATOR NORDQUIST: Yes, yes. [LB17]

SENATOR HADLEY: The first proponent. [LB17]

SENATOR NORDQUIST: I'll be here for you to ask Senator Janssen all those questions too. (Laughter) [LB17]

JAMES CAVANAUGH: Senator Hadley, members of the Revenue Committee, my name is James Cavanaugh. I'm an attorney. I'm representing the Cavanaugh law firm and speaking in favor of LB17. Actually, I'd be speaking in favor of all the bills you have this afternoon. Our firm has a focus of practice in the Social Security benefits area. We're the oldest and largest such law firm in Nebraska so we see the recipients of, or prospective recipients of, Social Security benefits in great numbers every day. And what you have before you, and really all three of these proposals--and I commend the sponsor, Senator Nordquist, Senator Janssen, and Senator Crawford, the cosponsors as well, for bringing this before you--are attempts to stretch the already relatively tight budgets of retired people, disabled people, survivors of folks who qualify for Social Security benefits who are overwhelmingly, 90-plus percent, on very limited, fixed income budgets. When the questioning was going on with Senator Nordquist relative to, you know, what would they do with the monies that they would realize under any of these proposals, I can tell you simply, 99 percent of them would spend every penny every month. These monies would not go into retirement accounts, obviously. They wouldn't go into investment portfolios, they wouldn't go into gold, they would go into the basics of, well, hopefully, something approaching a middle-class lifestyle in Nebraska, which is, on the numbers that we're talking about, you know, in the mid-30s for a couple, a bit of a stretch. And I don't know what numbers the Fiscal Office would provide you relative to mean income or middle income in Nebraska, but if you're supporting a couple of people on that amount of money, every penny, every month that they get is spent. So, if you're talking about, okay, where does some of that money come back represented in the fiscal note deficit on these bills, well, certainly, whatever percentage the sales tax of the state of Nebraska is, that would come back on everything except, I guess, food that they would buy each and every month. The other taxes that they would pay, if they had motor vehicles or if they had property that wasn't exempt, would, you know, also be coming back. But, you know, the real question is, why do we talk about the taxes coming back on this end? They've paid into this fund all of their lives. They paid the taxes in the form of their FICA taxes all of their lives. This isn't some entitlement program. This is a right that each and every one of us have to a retirement or, in the case of disability, to a decent lifestyle, although we can no longer work through no fault of our own. This has worked great for 70-odd years. It would work better if the people who receive these benefits, the overwhelming majority of which are barely middle-class, if this is all that they've got to support their retirement years on, have already paid all the taxes that were probably justified in asking them to pay, with the exception of these taxes that they'll go on paying until the day they die, which I've already outlined. Relative to the high-end incomes, so-called, that would be allowed at least, you know, under some interpretation in these bills, you know, Social Security law and how it's supported and who pays in is ripe with good deals for the high-end. I personally pay penny for penny the exact same Social Security tax that Warren Buffett pays, that Bill Gates pays. And the reason is that after a hundred and some thousand, you don't pay anymore Social Security tax on any of your income. So, you know, the people who are getting the big breaks on Social Security income being not taxed are already getting the breaks on the front end. And relative to the number of people participating in these programs, it would be a miniscule fraction of the people positively impacted by what you're talking about doing here. The downside is that many of these people that we see every day are not only, you know, barely surviving on either their retirement benefit from Social Security or their disability benefit from Social Security, but they're forced on to other government-supported programs, whether that would be government-assisted housing or government-assisted food stamps or any of the other, Meals on Wheels, any of the other benefits that we pay for, whether it's on the federal, state, or local level. So, you know, you're not saving any money by taxing these people on their very limited incomes. Probably at the end of the day, you're costing us all more than if we would just allow them to have the money that they've already paid in and they have a right to be paid back to, and which is not going to make, in the great scheme of the ship of state of Nebraska, a lot of difference. You look at the fiscal notes here and they're interesting, but they're estimates. And I'll give you an example of what kind of an estimate they are going off to probably one of the other bills as an example, because it's been introduced before. Senator Janssen's bill was introduced by, a virtually identical bill, by Senator Nordquist last year. And I would recommend that you go to the fiscal note for the same bill, LB976 last year, and compare it to the fiscal note for this bill, LB74, and you'll see a big, big tens of millions of dollars variation in estimates. I don't know that the tax code has changed that radically in a year. What I'm saying is, the numbers that you're talking about, whether they would be, you know, on the high-end, as represented in Senator Nordquist's bill...or Senator Janssen's bill, or in the middle, as represented in this year's Senator Nordquist's bill, or on the low end, which you'll hear from Senator Crawford about, are estimates, best guesses. So relative to, is that going to be the number that you make your decision on, I would say, you know, take them with a grain of salt and go back and look at what's the difference between LB74 before you today and LB976 from last year. The fact of the matter is that Nebraska has a growing population of elderly people, and that's a good thing. This is a great place to be born, this is a great place to grow up, this is a great place to grow old in. We want to keep it that way and I think that the idea encapsulated in these three bills will in some small way help us get there. And I think that it more than outweighs the minor impact that it would have fiscally on the state of Nebraska overall. That's all I have on LB17. I'd be happy to answer any questions you might have. [LB17]

SENATOR HADLEY: Thank you, Mr. Cavanaugh. Are there questions for Mr. Cavanaugh? [LB17]

SENATOR HANSEN: I have one. [LB17]

SENATOR HADLEY: Senator Hansen. [LB17]

SENATOR HANSEN: Mr. Cavanaugh, when the Social Security was started, was it considered a saving account until you retire? [LB17]

JAMES CAVANAUGH: When Social Security began 75 percent of the people in the United States, 65 years or older, worked until the day they died, 75 percent. [LB17]

SENATOR HANSEN: Like I plan on doing. [LB17]

JAMES CAVANAUGH: So it was designed so that you wouldn't have to work until the day you died. [LB17]

SENATOR HANSEN: But wasn't it for the low-income people that couldn't reach the...I mean, Social Security in their old age? And was it ever intended as a savings account for someone who did make a good living? [LB17]

JAMES CAVANAUGH: It had universal application, Senator Hansen, from the poorest to the wealthiest. Everyone from the beginning was eligible for Social Security. The only cutoffs were people who made above a certain kind of income didn't have to pay on that excess income at all to support the program for everyone else, including themselves, in society. It's worked pretty well. [LB17]

SENATOR HANSEN: I assume that Warren Buffett will probably not be waiting on that check when it comes from the Social Security Administration. [LB17]

JAMES CAVANAUGH: Right. And I think to his credit,... [LB17]

SENATOR HANSEN: And...but when you get... [LB17]

JAMES CAVANAUGH: ...his public statements have been that, you know, he doesn't think that that's a fair setup either. I mean, he's actually called for higher taxes on himself and people like him. [LB17]

SENATOR HANSEN: Well, Department of Revenue has a phone number and probably an address that he could send a check to. But isn't it the problem with the baby boomers, like Senator Nordquist said? Now that you have a whole large group of people that are retiring at the same time, isn't that the problem? [LB17]

JAMES CAVANAUGH: Well,... [LB17]

SENATOR HANSEN: The baby boomers have become greedy. They want all their Social Security, plus, back, and now we're going... [LB17]

JAMES CAVANAUGH: Yeah, as a baby boomer and I don't know where you come in, but you're pretty close to a baby boomer, I'd say. [LB17]

SENATOR HANSEN: No, I'm one of them. [LB17]

JAMES CAVANAUGH: You know, I think that if you take the demographic cohort that we are in, people either just about to retire or have just retired, you'll see that over time from the beginning of the Social Security Act, it has been supported by fewer and fewer workers. Each retiree is supported by fewer and fewer workers and there are a lot of different reasons for this that, you know, probably are beyond the scope of this hearing today. That said, Social Security itself, the benefits program in Social Security, are fiscally sound going out well into the twenty-first century with no change in Social Security and no change in the population. It might help to take 11 million undocumented immigrants and put them on the tax rolls as 11 million workers and contributors to the Social Security fund. That might be a start. But, you know, there's not much we can do at this late date as baby boomers to make up for our demographic bulge in the population. Not going to impact on this. It's not going to be a big factor going forward on the whole Social Security program. [LB17]

SENATOR HANSEN: Okay. Thank you. [LB17]

SENATOR HADLEY: Senator Sullivan. [LB17]

SENATOR SULLIVAN: Thank you, Senator Hadley. And thank you, Mr. Cavanaugh. This is maybe an indirect question but since you have worked in Social Security issues with your law firm, what's so sacred about that $100,000 cap and limit on Social Security tax? [LB17]

JAMES CAVANAUGH: It's an excellent question. Ninety-six percent plus of Americans pay Social Security tax on 100 percent of their income. So the only thing sacred about it really is the 6 percent that don't, 5 percent or 6 percent, give or take, have disproportionate influence on how the tax policy of the United States is written and have for some time. There have been repeated calls, even by people like Warren Buffett, to either bring that up to, you know, a much higher or do away with it entirely. It would have a zero impact on the lifestyle of those 5 percent who are making out pretty good under the present system. And it would have, you know, a significant impact on the people that we're talking about today. And that's, you know, that's kind of why it's important to maybe do something like this is, even if you did what's in these bills, which is modest but it's good, it's going to have a disproportionately big impact on a lot of Nebraskans that we all know, that we see at the grocery store or at the coffee shop every single day. And they're the people who built this state. They're our, you know, mothers and fathers and soon to be us, and, you know, we need to do a better job of taking care of them. We're not doing it on that tax end because it...that doesn't look like it's going away. We can do it on this tax end. [LB17]

SENATOR SULLIVAN: Thank you. [LB17]

SENATOR HADLEY: Senator Schumacher. [LB17]

SENATOR SCHUMACHER: Thank you, Senator Hadley. Certainly in my parents' generation, they paid in to Social Security a lot less than they took out. At some point in the future, the people taking out of Social Security will have paid in a lot more than they're going to be able to get out. For somebody retiring today, are they on the winning or losing side of that equation? [LB17]

JAMES CAVANAUGH: If nothing is done on the basic Social Security plan except occasional incremental increases in the very modest contribution that we all make now, as was made during the Reagan administration and about every 20 years before that back to the beginning of this program, everybody gets paid, no matter how long you live. You get paid out no matter how long you live, everybody. One of the great myths of the Social Security debate is, oh, my God, we're just driving this over the cliff and we'll make out great but our children are just going to be left with an empty tin cup. That's a lie. That's not true. That's not actuarially true. Even if we do nothing to the Social Security program as it is, it's actuarially sound longer than the pension programs of public employees in Nebraska are actuarially sound today. So if you're going to worry about, well, are the kids going to get paid, worry about, you know, are public employees retiring as Nebraska workers today going to get paid if they live past a certain age in the not too distant future, because you can do something about that. [LB17]

SENATOR SCHUMACHER: For the person retiring today, are they going to take out more than what they put in? [LB17]

JAMES CAVANAUGH: Depends on how long they live. [LB17]

SENATOR SCHUMACHER: Well, the average actuarially projected person. Do you know? [LB17]

JAMES CAVANAUGH: Well, the average actuarially projected person lives in America to be about 70 years old, plus or minus. And going back to probably the early '50s, nobody living to that age has been able to recoup every penny. However, their dependents are, their surviving widows are. People like Paul Ryan, who grew up on his deceased father's Social Security benefits, are. And when you factor those things in, family groups as a whole definitely get back just about everything they put in over time. [LB17]

SENATOR SCHUMACHER: Unless we cut the budget, stop spending, the $30 million, or whatever the number turns out to be that would be lost to the folks who are Social Security beneficiaries, needs to be made up from somewhere. It's a shift. It's not a reduction of taxes. Where's that going to be made up at? Who's going to pay more because some folks pay less? [LB17]

JAMES CAVANAUGH: Right. Right. When this question comes up, and it's always, it seems lately, framed in that way, I think of the movie Sophie's Choice. Remember the movie Sophie's Choice? Remember that movie? [LB17]

SENATOR SCHUMACHER: Was (inaudible) a theater in (inaudible). [LB17]

JAMES CAVANAUGH: Okay. You know what Sophie's choice was? Sophie's choice was a very bad choice between do you want this child to live or do you want that child to live? You know, it goes back to the Holocaust. Okay. And every time I hear this framed this way, it's like, you want education to suffer or do you want medicine to suffer, healthcare to suffer? You want roads to suffer or you want...? You know, it's not Sophie's Choice. And that's what you people are here to figure out, is how do we do the best with what we've got? I think some of it is coming back in a rebounding economy. You know, we're coming through some pretty hard times right now where everything was pretty bleak, but we seem to be rebounding and there will be more tax revenue as a result of that rebound, presumably, if the economy still works the same way it's worked all of my life. Don't you see projections for more tax revenues from the people who do those projections for the state? [LB17]

SENATOR SCHUMACHER: I can see...and you can all see projections of increased expenses. [LB17]

JAMES CAVANAUGH: Exactly. [LB17]

SENATOR SCHUMACHER: But at any rate, thank you. [LB17]

SENATOR HADLEY: Senator Harr. [LB17]

JAMES CAVANAUGH: And one more point though, because those projections are important. [LB17]

SENATOR HADLEY: Let's...I think we need to go on. Senator Harr. [LB17]

JAMES CAVANAUGH: Oh, sorry. [LB17]

SENATOR HARR: Thank you. Thank you, Mr. Chairman. Mr. Cavanaugh, you said you worked for Cavanaugh law firm or with Cavanaugh law firm, and I think it's...you know, you say it's the largest, I think it's the best Social Security law firm in the state, probably because my friend works there. But... [LB17]

JAMES CAVANAUGH: Thank you. [LB17]

SENATOR HARR: ...my question is, we seem to be focusing a lot of this bill on senior citizens. Can you tell me how this bill would affect your clients, or the clients of Cavanaugh law firm, I should say? [LB17]

JAMES CAVANAUGH: A lot of the people, you know, that we represent live day-to-day on a level that you would consider pretty basic. I mean, if you just went home and looked in your refrigerator and you went home with some of these people and looked in their refrigerator, you'd notice it right away because they eat different than we do or they eat different than, you know, middle-class or anybody doing better than that do. That's on a basic level, what you eat. And these diets have impacts. They have impacts on diabetes. They have impacts on obesity. Unhealthy diets cost us all money because they lead people to medical problems that then we come back and pick up. A lot of times, because they're Social Security recipients, you'll pick them up either through Medicare or Medicaid, and if it's Medicaid, then you're going to pick it up around here, you know, with the state match for whatever our Medicaid thing is. So, on the most basic level, what they eat, if they could eat better, they might have fewer of these health problems. You know, they might have access to better transportation. They might have access to better housing, you know, basic things. [LB17]

SENATOR HARR: But this...this tax...this bill would put more money in those clients' pockets. [LB17]

JAMES CAVANAUGH: It would, and they would spend it each and every month. [LB17]

SENATOR HARR: Okay. Thank you. [LB17]

SENATOR HADLEY: Senator Janssen. [LB17]

SENATOR JANSSEN: Thank you, Chairman Hadley. Thank you, Mr. Cavanaugh. We keep bringing up Warren Buffett and I think that's probably not the most responsible way to set tax policy for our state, one of the, you know, wealthiest men if not the wealthiest man in the world. That said, on his income, I think it's documented, he has $100,000 income, I mean, annual income. [LB17]

JAMES CAVANAUGH: Correct. [LB17]

SENATOR JANSSEN: That's what he's paid. [LB17]

JAMES CAVANAUGH: Right. [LB17]

SENATOR JANSSEN: And so is that what he would pay in Social Security taxes, is that what he would pay into the system off of that $100,000? [LB17]

JAMES CAVANAUGH: It depends on what the balance of his income is. I think a lot of his income is like capital gains, you know, on his investments. [LB17]

SENATOR JANSSEN: Right. That's what I'm...I'm looking for a clarification on it, you know. [LB17]

JAMES CAVANAUGH: Right. And you're not going to pay Social Security tax on capital gains. But it's interesting because I think it's in Senator Nordquist's bill where that type of investment income is specifically excluded from the calculation, isn't it? I thought I read that in there. Maybe it's in your bill. So that it's only, you know, earned income that's counted towards the calculation of who's going to get the benefit. So you can't be like a Warren Buffett with, you know, a gazillion dollars of unearned income and, you know, still participate in the program in any meaningful way, as far as I see it. [LB17]

SENATOR JANSSEN: That's what I...and that's what I thought. That's why I think it seems to be unfair to be using Warren Buffett as an example. You made mention that somebody making...somebody paying in over that amount, where it's no longer subject to Social Security, it wouldn't change their lives. But I would disagree with that. If somebody is a salesperson and can't really...Warren Buffett can set his own income, whatever he wants. [LB17]

JAMES CAVANAUGH: Right. Right. [LB17]

SENATOR JANSSEN: A person that's selling cars that's making $120,000 a year but feeding a family of four. I think that would severely impact their day-to-day decisions if they had to continue to pay over that threshold or even $150,000. I'm not here saying look out for all the six-figure people. I'm just pointing out that... [LB17]

JAMES CAVANAUGH: Right. [LB17]

SENATOR JANSSEN: ...there is a real impact to everybody and not just a certain select group, so. [LB17]

JAMES CAVANAUGH: There is and that's, you know, they kind of tried to set it at a level that would be high enough where, you know, if you're making a hundred and...I think it's $111,000 or somewhere in that area now. [LB17]

SENATOR JANSSEN: It's a moving target, I believe, isn't it? Isn't it on an annual basis? [LB17]

JAMES CAVANAUGH: It goes up a little bit annually, but it's not really going to change how you live that much. And there have been proposals and serious considerations have been given to, okay, well, let's skip and then just pick up the tax at $250,000 or $500,000 or $1 million, you know, where it's obviously not going to make any...it's not going to...you could tax this at double the going rate of FICA today and it wouldn't change how Warren Buffett lives at all. [LB17]

SENATOR JANSSEN: Right. You took me down the road I was going to go down with the skipping certain areas, I mean. [LB17]

JAMES CAVANAUGH: Yeah, those are good proposals. In the past what has been done is simply raising the percentage rate, you know, the 6.5 percent or whatever it is, a .50 percent or a .25 percent, and that kicks the can down the road 25 years. Well, it does nothing to that ceiling. The ceiling just incrementally creeps up a few thousand dollars every years and it's never going to catch up with...you know, that top 4 percent are always going to have a great deal. [LB17]

SENATOR JANSSEN: Thank you. [LB17]

SENATOR HADLEY: Thank you. Senator Schumacher. [LB17]

SENATOR SCHUMACHER: Thank you, Senator Hadley. One follow-up question. You answered Senator Harr's question of whether or not this would put money in all your clients' pockets, and I think you said yes. [LB17]

JAMES CAVANAUGH: Well, pretty much, yeah, it would. [LB17]

SENATOR SCHUMACHER: Okay, but not unless they make more than $32,000 a year. [LB17]

JAMES CAVANAUGH: Well, that's true. But all those that were eligible, you know, it would. [LB17]

SENATOR SCHUMACHER: But of the clients you described as living day to day and, you know, $32,000, that's almost $3,000 a month. That's, compared to a lot of stuff in rural Nebraska, that's pretty good. [LB17]

JAMES CAVANAUGH: Yeah, and you can pay for a lot less in Omaha, Nebraska, and Lincoln, Nebraska, and you know, it's a modest income. No one is getting rich on $3,000 a month. And, you know, what I'm saying is, these people have worked all their lives, the majority of them, I mean, say just the retirees in this thing, all of their lives. And they deserve a decent, respectable, comfortable retirement. They have earned this. Now, we're going to come back after, you know, 60-some years of paying in, and say to them, well, that was great, thanks a lot, and now we'll clip you a little bit on your way out. It doesn't mean anything to us, but it means something to them in terms of a quality-of-life issue. It really does. I mean, these people live pretty close to the... [LB17]

SENATOR SCHUMACHER: And the younger people are going to pay in all their lives too. [LB17]

JAMES CAVANAUGH: Sorry? [LB17]

SENATOR SCHUMACHER: And the younger people are going to pay in all their lives, too, and don't... [LB17]

JAMES CAVANAUGH: Well, that's the social compact. You know my grandparents' generation paid, my parents' generation paid, I paid, my children's generation is going to pay, and on and on and on. And, hopefully, everybody does that as part of the social contract of being a citizen in the United States, a civilized country. It's part of how we do business. The alternative is what we had before: 75 percent of people 65 years or older working in poverty, pretty much, until the day they died. We decided, as a society, we can do better than that, and we have and we should continue to do better. This is making it slightly better. [LB17]

SENATOR SCHUMACHER: Thank you, Mr. Cavanaugh. [LB17]

SENATOR HADLEY: Thank you, Mr. Cavanaugh. [LB17]

JAMES CAVANAUGH: Thank you, sir. [LB17]

SENATOR HADLEY: The next proponent. [LB17]

MARK INTERMILL: (Exhibit 1) Good afternoon, Senator Hadley and members of the committee. My name is Mark Intermill, M-a-r-k I-n-t-e-r-m-i-l-l, and I'm here today representing AARP, and also to join in the conversation about Social Security which is a topic very dear to my heart, and also maybe to defend baby boomers a little bit. We are supporting LB17. This is the only bill that we will appear on over the next couple of days. And the reason we are supporting this one...not to...it's not to say we wouldn't like to see the others, but the reason we're supporting this one is because it is targeted. And as the attachment that I have added to my statement indicates, that we have regained our revenue position but we're still not in the position where we have unlimited resources to provide additional tax relief. I want to talk a little bit about Social Security and take you back to 1983 which was when we...the Congress took action that effectively allowed Nebraska to tax Social Security benefits. It wasn't any action taken in this building. It was something that Congress did that we followed along with because we're tied to the federal tax system. Back in 1983 there was...actually 1982 a report was issued by the Social Security actuary that said Social Security would run out of money, the trust fund would run out of money by July of 1983. We would not be able to pay full benefits that were promised under that current system. So one of the things that Congress did among a number of things, including raising taxes on us baby boomers, was to tax Social Security benefits. And they set the threshold for that taxation at $25,000 for a single person; $32,000 for a couple. In 1983, $25,000 for a single person amounted to 514 percent of the federal poverty level. It's still $25,000 and $32,000 today. Every year we pick up a few more people at the lower end of the real income scale who pay...are required to pay taxes on Social Security benefits both at the federal level and the state level. The proceeds of the taxation of Social Security benefits at the federal level went to the Social Security Trust Fund. It went to make the program more sound. And as of today, the program will be able to pay full benefits until 2033. In Nebraska, it was a windfall. And just based on one of the fiscal notes I looked at today, it's about an $80 million windfall. So, one of the things that we see is a need to address the lack of indexing of that $25,000, $32,000. LB17 does that. And the question about whether there should be an index to it, I would agree that would be nice to see that. But that's really the issue that I think we feel needs to be addressed so that we just don't keep dipping down a little bit farther down the income scale. Today $25,000 is close to 200 percent of the federal poverty level instead of 513 percent like it was back in 1983. So, we see this as kind of a base of what could be done. And I would agree that there could be some adjustments in some of the numbers and there are things that could be done to rein in the fiscal note some, but this is something that I think we do need to address so that we don't keep sliding down and picking up more people, who have lower incomes, in the taxation of their Social Security benefits. With that, I'd be happy to try to answer any questions. [LB17]

SENATOR HADLEY: Senator Pirsch. [LB17]

SENATOR PIRSCH: And I appreciate your testimony. Just so I'm clear as far as your position, though, because there's a number of different competing, you know, plans, that this is the one you would support because you think that it is...if I can maybe paraphrase it, in terms of, it can apply universally because of the size of the...the overall size of the dollars then that would be involved. And you think then if you're dealing with limited scarce dollars and you're going to make an impact, you would shift it to the lower end of the spectrum out of fairness. Is that fair to say? [LB17]

MARK INTERMILL: Yeah, we do surveys of our membership fairly regularly and what we find is when we break it out into the income groups that people are reporting to us that...the results of a survey, those individuals over $75,000 are experiencing the same burdens with different types of costs that those who are down in the $35,000 to $40,000 level. So if we have resources that we can direct to providing tax relief related to Social Security taxation, we think they should be directed at those lower income levels. [LB17]

SENATOR PIRSCH: And you're satisfied with the level where this bill sets it, or do you think that...well, let me just ask. Are you satisfied with the level where it's at now? [LB17]

MARK INTERMILL: What this level does is, essentially, it's where it would be if the income levels had been indexed. So we're getting back to that point where we were at back in 1983 in terms of relationship to poverty or, you know, just making sure that those levels kept up with inflation. [LB17]

SENATOR PIRSCH: Okay. Thank you. [LB17]

SENATOR HADLEY: Mr. Intermill, I...if the taxation is such a concern and 40-some odd states have exempted, is that correct, why does the federal government still tax Social Security income? [LB17]

MARK INTERMILL: To support the Social Security Trust Fund. You know, that's where the proceeds of the taxation of Social Security benefits by the federal government goes, to the trust fund. While the trust fund is solvent until 2033, if those were diverted or stopped, that would be that much less money going into the trust fund. That's my speculation and the rationale. [LB17]

SENATOR HADLEY: They basically need the money, is that...? [LB17]

MARK INTERMILL: For Social Security, yeah. [LB17]

SENATOR HADLEY: Right. The second thing, and I guess it's more of a statement and this is something that obviously could be further discussed. I looked at the median household income for Nebraska is about $50,000. So if we go up to $80,000, we're exempting that...we're exempting more for the Social Security people and we have families...middle-income families that are paying taxes on lesser amounts and I just think that's something we have to look at the tax burden, you know, in looking at that. [LB17]

MARK INTERMILL: And those persons at $80,000 would still be paying tax on their other income as well. It would just be a reduction and a portion of the Social Security income would be exempt. Just another point of clarification about the formula for determining what those thresholds...whether they're met or not, you take the...it's the adjusted gross income and then you add in all of the tax-exempt interest that a person has, so any municipal bond income goes back into that calculation, but then also a portion of the Social Security benefits are backed out. There's a 50 percent threshold of benefit taxation and a 85 percent threshold at $34,000 single and $44,000 couple. So I think we're...even at $60,000 and $80,000, if somebody had $80,000 and one, they would be taxed at the 85 percent level. [LB17]

SENATOR HADLEY: Thank you, Mr. Intermill. Senator Schumacher. [LB17]

SENATOR SCHUMACHER: Thank you, Senator Hadley. So far I think we've learned something and that is that we're picking up about $30 million a year from retirees who make more than $32,000 a year as a couple. If we give up that money and if we don't cut any programs, what do you see, from your perspective, would be the likely place that we should target in order to pick up $32 million...or $30 million a year? [LB17]

MARK INTERMILL: Well, one of the reasons I added the attachment to my testimony is to indicate that revenues are coming back and that we didn't feel we could, in good conscience, advocate a large tax exemption in the last couple of years because revenues were not in good shape. At this point, we're back to that 4.75 percent annual growth rate that we tend to trend to. So, this is about a $3 million...a $30 million a year, what's that, $2.5 million a month, which this is showing we're well up over $300 million. We think that there is a possibility that we could fit that into the revenue structure that we have currently. [LB17]

SENATOR SCHUMACHER: Did you see this morning's GDP figures? [LB17]

MARK INTERMILL: Down .10 of a percent. [LB17]

SENATOR SCHUMACHER: And the 4 percent to 5 percent projection of increase in revenues based upon trends since 1980. Fundamental economic situation is a whole lot different since 2008 and before that. So, I mean, in building a sound tax policy, should we get too giddy about a projection of 4 percent when maybe that's not in the cards? [LB17]

MARK INTERMILL: Yeah. Projecting the future is always challenging. But on the other hand, what this issue is, from my perspective, is an issue of fairness of looking at how we can address those needs of individuals who are struggling. [LB17]

SENATOR SCHUMACHER: To be fair to one side, almost invariably we've got to be unfair to somebody else. Thank you. [LB17]

SENATOR HADLEY: Thank you, Mr. Intermill. [LB17]

MARK INTERMILL: Sure. [LB17]

SENATOR HADLEY: Any other proponents? [LB17]

ROGER REA: (Exhibits 2-6) Good afternoon, Senator Hadley and members of the committee. For the record, I am Roger Rea, R-o-g-e-r R-e-a. I'm the president of the Nebraska State Education Association-Retired, an organization comprised of approximately 5,000 retired school employees. NSEA-Retired is an affiliate of the Nebraska State Education Association. A number of bills have been introduced this year to make Nebraska more retiree friendly. As you have probably heard, Nebraska is one of the least retiree friendly states in the nation. One of the reasons that Nebraska has that dubious distinction is that Nebraska is one of just five states that taxes Social Security to the full extent that's allowed by the federal government. I'm pleased this year that so many senators have recognized the problem and have introduced a variety of bills to change the tax structure to make Nebraska more retiree friendly. I want to thank them and offer to work with them and the Revenue Committee to develop a way to give retirees the best tax break that the state can afford. In examining the seven-state region around us--Nebraska, Missouri, Iowa, South Dakota, Wyoming, and Colorado and Kansas--Nebraska ranks dead last in terms of giving retirees and senior citizens a tax break. In fact, the only retired Nebraskans who get a tax break are those retired from the railroad because the state does not tax railroad retirement. Are railroad retirees somehow more valuable to the Nebraska economy than other retirees who receive Social Security income? I submit that these two groups are equally valuable to the Nebraska economy. They should be treated equally with regard to state taxation of their retirement benefits. One of the unintended consequences of the unfavorable tax treatment of retirement income is that a significant number of Nebraskans leave the state at the time they retire. The 2010 census data shows the losses, and you will hear testimony later detailing how that population loss works out. While it's difficult to predict how many Nebraskans will leave the state when they retire over the next decade, one good indicator comes from the fraction of retirees receiving a pension from one of the six defined benefit plans from the state. About 10 percent of Nebraska retirement systems benefit payments goes to other states. And I've given you a copy of the states that they go to. This would give us a good rule of thumb that Nebraska will lose about 10 percent of the population close to retirement to other states. I make the case that retirees represent an untapped economic resource in Nebraska. The income retirees have from Social Security, pensions, savings, and investments, as well as the money that comes to them in the form of Medicare payments and benefits, represents a huge economic engine for the state. For this reason...the reason for this economic engine is simple. Retirees spend their retirement income where they live. They support the local grocery stores, restaurants, clothing stores, hardware stores, movie theaters, car dealers, doctors and pharmacies, to name just a few of the businesses. How large is this economic engine? Let's examine some data. The 2010 census shows that Nebraskans who move to South Dakota or Texas, just two of the states from which retirees in Nebraska...attract retirees of Nebraska, have incomes of about $45,000 per year. The census also shows that Nebraska has almost 360,000 people between the ages of 50 and 65 years old. These are citizens who are making the decision on where to live and where to spend their retirement income in the coming decade. If 10 percent of them leave the state, as has been the trend in the past, some 36,000 people will take their retirement incomes and their talents to other states. At a modest $35,000 per capita income, that translates to a loss of $1.25 billion, money that would have been spent in Nebraska if we had held on to those retirees. If their per capita income is closer to $45,000, which is the average of people going to South Dakota and Texas, Nebraska will lose more than $1.6 billion that would otherwise have been spent in Nebraska. What other source provides an economic impact of that magnitude? I submit that attracting and retaining retirees presents an enormous and untapped source of economic potential for the state. To put the argument in a different context, if Nebraska were to slow the out-migration of retirees by just 1 percent, the state would hold on to about 3,600 more people and receive an additional $125 million in economic stimulus, assuming that each retiree had a $35,000 annual combined pension, Social Security and Medicare benefit. LB17 changes the threshold for taxing Social Security benefits at the state level to what the threshold would have been at the federal level had the original levels been indexed for inflation. But changing the tax thresholds to a higher value at the state level does not address the reality that Social Security is only taxed at the state level, because the state income tax is a percentage of the federal tax liability. It's time to return that money to the rightful owners, the recipients of the Social Security benefits. If I were drafting a bill to provide tax relief for retirees, my first preference would probably not be the way LB17 is written. But LB17 does provide a significant first step in making Nebraska more retiree friendly. By removing or lowering the state income tax on Social Security benefits, Nebraska will be taking positive action to slow the out-migration of retirees. By removing or lowering the state income tax on Social Security benefits, Nebraska will be taking a positive step to add dollars to the state economy. It does not take additional roads to do that; it does not take additional water resources to do that; and it does not take tax incentives that lower the state revenues to do that. It simply takes passage of LB17. Passing LB17 will be a win-win for retirees in Nebraska as well as for the state economy. Most states have come to grips with the powerful argument regarding taxation of retirement benefits. The logic of that argument is simple as it is powerful. The argument is this: Social Security and pensions are intended to keep our elderly and disabled citizens out of poverty. They were never intended to be sources of revenue for the state. Taxing Social Security benefits at the state level does not help keep our elderly and disabled citizens out of poverty; taxing those benefits pushes them closer to poverty. I urge you to consider retirees as a source of economic development for the state. Retirees provide a steady, reliable economic engine for the state, over $4 billion per year for Social Security recipients, over $2.4 billion per year for Medicare recipients, and pension dollars would be extra. I urge you to consider making Nebraska more retiree friendly in order to slow the out-migration of Nebraskans at the time they retire. I would urge you to vote LB17 out of the committee and on to the floor of the Legislature to engage in that debate with the full Unicameral. We are ready to work with Senator Nordquist and the Revenue Committee to offer modifications to LB17 to enhance the appeal of the bill to all retirees. I'll be happy to answer any questions. [LB17]

SENATOR HADLEY: Are there questions? Senator Sullivan. [LB17]

SENATOR SULLIVAN: Thank you, Senator Hadley. And thank you, Mr. Rea. First of all, and you may have stated this in your comments and some of this information that you have sent out, but the population loss in Nebraska, can...do we have the breakdown in terms of numbers of retirees versus other people leaving the state? [LB17]

ROGER REA: You'll get that information from the population, the census fellow later on during testimony today. [LB17]

SENATOR SULLIVAN: Okay. And do we have data that indicates why they leave? Is the tax...are they leaving because of the tax burden? [LB17]

ROGER REA: Again, I'll let the individual who is going to testify on the census answer that question. [LB17]

SENATOR SULLIVAN: Okay. Now sometimes I struggle with these rankings, and you refer to them and sometimes the rankings are based on just kind of a microcosm rather than a whole number of different variables. And then I listened to Senator Hadley's comment about the AARP article about Omaha being a very retirement friendly place. What's wrong with it in terms of your perspective as a retiree? [LB17]

ROGER REA: In terms of the state itself? [LB17]

SENATOR SULLIVAN: Uh-huh. [LB17]

ROGER REA: I have a friend who moved to Texas a couple of years ago and he did it because he had a job, it was in Texas. He is now retiring from Texas. Texas has no income tax. He has no family left in Texas. His daughter has moved with him to Texas, now they're out of the house, and all of the rest of his family lives in Nebraska. And he's thinking about coming back to Nebraska. And he asks me every time he thinks about this, he said, Roger, what is the tax climate like in Nebraska for guys like me who are going to be retired? Should I move to Iowa, which is right across the river, and I could drive over to see you in Omaha and you could drive over to see me and I would not be subject to Nebraska tax? That's the kind of thing I think we've got to work on. How do we make this attractive for retirees to stay here, not how do we try to push them out of the state. I think LB17 helps it make it more attractive for retirees to stay. [LB17]

SENATOR SULLIVAN: One of the challenges that we have as policymakers is to balance all these interests, and I guess my other question to you is, what and how do we balance this concern with keeping the retirement fund fully funded for our current educators? [LB17]

ROGER REA: They're two different issues. Retirement fund is one matter; this is a matter of keeping retirees who are not participating necessarily in that retirement fund. They're two different matters. [LB17]

SENATOR HADLEY: Senator Pirsch. [LB17]

SENATOR PIRSCH: Yeah. And thank you very much for your testimony here today, Mr. Rea. I just wanted to question...you had some census data... [LB17]

ROGER REA: Yes. [LB17]

SENATOR PIRSCH: ...and you could kind of see some trends, you said, moving to South Dakota or Texas,... [LB17]

ROGER REA: Uh-huh. [LB17]

SENATOR PIRSCH: ...just two of the states. Have you broken it down to see, you know, with the issue of Texas, and so you're saying 10 percent of the retirees move out. Toward the question of what's compelling the movement out, I think Texas probably offers, you know, some warm weather as well. South Dakota may be more analogous to us in terms. Do you...can you tell anything, have you seen those figures? Does it look like we're losing most of those people to Texas, or is it a significant chunk to South Dakota as well, which suggests it's not the winters. [LB17]

ROGER REA: Well, let me answer the question in a different way. [LB17]

SENATOR PIRSCH: Okay. [LB17]

ROGER REA: One of the handouts I gave you is the...where the money goes from the defined benefit plans to various states. If you look at the amount of money that we pay in defined benefit plans for Nebraska retirees to Kansas and to South Dakota, those are two states that are close to us, they share roughly the same border between Kansas and South Dakota, and more of the Nebraska population is close to Kansas than is close to South Dakota. Almost twice as much money goes to Kansas...I'm sorry, goes to South Dakota as goes to Kansas. Twice as much money goes to South Dakota as goes to Kansas. I don't think people are moving to South Dakota because of the climate. They're moving there because of the tax situation. [LB17]

SENATOR PIRSCH: Yeah. Well, I appreciate that. That's exactly the kind of information I was looking. And then with...well, what is the...can you give us a flavor for the discrepancy in the disparity with, you know, your typical individual who may be like your friend you described who may be, you know, given his situation in Iowa and Nebraska, what is the overall economic discrepancy between Iowa and Nebraska? What does it mean in dollars and cents terms, in terms of moving across the river? [LB17]

ROGER REA: In Nebraska you get taxed fully on your Social Security; in Iowa you don't. [LB17]

SENATOR PIRSCH: Right. [LB17]

ROGER REA: That's one of the major considerations. I'm sure there's others. That's the one he's expressed to me the most. [LB17]

SENATOR PIRSCH: Okay. [LB17]

ROGER REA: In fact, when he worked in Nebraska, he lived in Omaha for a period of time and finally moved to Iowa and commuted to Omaha because he had a better tax climate in Iowa. [LB17]

SENATOR PIRSCH: Yeah, thousands of dollars more... [LB17]

ROGER REA: He didn't share that with me. [LB17]

SENATOR PIRSCH: Okay. [LB17]

ROGER REA: (Laugh) We weren't that close of friends. [LB17]

SENATOR PIRSCH: Okay. Thank you. [LB17]

SENATOR HADLEY: Senator Schumacher. [LB17]

SENATOR SCHUMACHER: Thank you, Senator Hadley. It's good to talk in terms of percentages and things like that, but I've been trying to pencil out some numbers here, considering we don't mess with people who have less than $32,000 a year and that we only tax half of the Social Security benefits above that and that that's on a graduated pay schedule. So when I just move the pencil around here I come up with somebody might save on the order of a couple hundred to five hundred dollars a year if we were to adopt this bill. Is that kind of thought in line with what you're seeing, I mean that that would be the savings to the average retiree, somewhere in that order? [LB17]

ROGER REA: I'm not sure what the exact number is. It would depend on the individuals themselves. But keep in mind that Nebraska never taxed Social Security benefits ever. [LB17]

SENATOR SCHUMACHER: I'm just trying to get a figure here. You're telling me that 10 percent of these folks are moving out of the state... [LB17]

ROGER REA: That's true. [LB17]

SENATOR SCHUMACHER: ...and I'm coming up and saying, this wouldn't pay for the U-Haul trailer. I mean, is my general range of number wrong or is the 10 percent wrong? [LB17]

ROGER REA: I think people are looking at the lifetime of this taxation, the tax climate, not just what happens to them tomorrow. There are a number of factors that make people move but the fact is, 10 percent of the people do leave the state between the time of 55 and 65. [LB17]

SENATOR SCHUMACHER: Okay. But when you do that math and say 10 percent of people saying skedaddle to Nebraska and assuming that they're saying skedaddle to Nebraska, not because of the weather or not because that their family has moved someplace else, because of taxes, are you subtracting out from that the population that is moving into Nebraska because Omaha is one of the friendly retiree cities in the country? Is there an offset? I mean, are we just looking at the outgo or are we looking at the income too? [LB17]

ROGER REA: You'll hear the demographic information completely from the census testifier a little bit later on. But the truth of the matter is, there's an out-migration in every age category. Nebraska has lagged the nation in every age category. There's a larger out-migration around the time they retire than any other time. [LB17]

SENATOR SCHUMACHER: And this is due to a few hundred dollars in taxes? [LB17]

ROGER REA: I don't know what it's due to. I'm saying... [LB17]

SENATOR SCHUMACHER: Okay. And that's my point. That's the point. We don't know what it's due to. And magically, in the last few days we've been attributing it all to taxes. Thank you. [LB17]

SENATOR HADLEY: Mr. Rea, I read an interesting article last night to prepare for this and it was entitled, "The New Way to Pick a Place to Retire," and it quoted Money magazine and a report from the Milken Institute, and let me just read into the record. They're talking about the new retirement people. This group doesn't necessarily want the obvious locales, like Florida or Arizona. Retirees today are looking at it with a sense of adventure as opposed to a sense of inevitability, says a retirement consultant. They may not weigh the pros and cons in terms of days of sunshine or numbers of golf courses but, rather, the number of hiking and biking trails, the opportunity for educational enrichment, the caliber of the art and restaurant scene. Since so many are working or would like to have that option, so a strong job market is also a concern in there. And they go on to then list the top 100 cities to retire in and they're using this new concept and Omaha is number three. [LB17]

ROGER REA: Uh-huh. Omaha is not without its good attributes. There's lots of reasons to move into Omaha, but with the tax climate, you're not seeing that happen. [LB17]

SENATOR HADLEY: But if it's ranked number three in these two studies that we've talked about as the best places to retire, then what...would it be one-plus if we changed the... [LB17]

ROGER REA: Having it ranked number three is one thing but actually seeing people move into the state is a whole different matter. [LB17]

SENATOR HADLEY: Okay. The second thing, you mentioned South Dakota. Do you know what the teachers' pay, where they rank in teacher pay, your retired teacher? [LB17]

ROGER REA: Not offhand, no. [LB17]

SENATOR HADLEY: Forty-ninth, and they were always happy that Mississippi was the fiftieth. Do you know...there's something called the comfort interest for teachers and the last time I looked, South Dakota ranked 49th in teachers' pay and Nebraska ranked 17th in teachers' pay. So I find it interesting that you stay in Nebraska...people stay in Nebraska to work to earn the higher salary and then move to South Dakota where they pay their teachers almost next to nothing to retire. There seems something incongruous about that because teachers are paid out of taxes. [LB17]

ROGER REA: Well, here's another piece of information that helps to fill that out. Nebraska ranks in the top ten in the nation in terms of people who have an earned income. They rank 50th out of 50 states in terms of people...percentage of population that gets income from retirement sources. [LB17]

SENATOR HADLEY: But isn't it a little incongruous of people that earn their income all their life by taxes, groups that are asking us to raise taxes so they can raise their salaries, once they retire they don't want to pay taxes and want to move to other states rather than paying taxes to help that next class of people that are coming along? [LB17]

ROGER REA: I don't see it that way, but perhaps you do. [LB17]

SENATOR HADLEY: Okay. Thank you, Mr. Rea. [LB17]

ROGER REA: Thank you. [LB17]

SENATOR HADLEY: Next proponent. [LB17]

JOHN JENSEN: (Exhibit 7) Senator Hadley, members of the committee, I'm John Jensen, J-o-h-n J-e-n-s-e-n. The paper being handed out comes from Phil Kaldahl, a retired teacher who did not want to get out in the snow today so he's sending testimony. He's from Bellevue and he represents the Bellevue Education Association-Retired, also known as the BEARS. I'll be very brief. Nebraska is not a retiree friendly state. If you do take a retired couple--they're well-to-do, they're making $100,000 a year--they're going to pay not a couple hundred dollars in state income tax; they're going to pay about $5,000. If that couple lives in Iowa...or in Nebraska, in Omaha, they can easily see, as soon as it becomes publicized more than it is now, that they could move ten miles across the river and save $5,000. I submit to you that when that happens, and it will happen, not only do you lose their income being spent in the state of Nebraska, but they also take their assets with them. Surrounding states are all a better deal, all of them are a better deal than staying in the state of Nebraska. Many Nebraska retirees, especially those with greater than the average income, do leave the state of Nebraska. They do take their income and they do take their considerable assets with them also if they're upper-income people. Therefore, I would ask you to be careful about coming up with a bill that excludes those folks, because I think we need to keep those folks in Nebraska because it's an economic engine for the state of Nebraska. That is precisely why the states of Florida, Louisiana, Nevada, Mississippi, Alabama, North Carolina, South Carolina, Georgia, all have programs to bring retirees to their states because retirees are good for their economy. Conversely, losing retirees, no matter how you cut it, is going to be bad for the economy of that state. My suggestion with all these bills that you're going to have both today and tomorrow, that as a committee in working with some senators, and I hope it would be...I agree with Roger Rea on LB17. I think this would be an ideal base to work with so that you can meld all of these bills into something that works for this committee and works for retirees in the state and works as far as how much it costs. I do believe there's no way we're going to find out without a study of how much of an economic engine this would be for the state of Nebraska but honestly, in my heart, know that the cost to Nebraska is not going to be $30 million with LB17, it's going to be something much less, much less. Consider where this money is spent when it stays in the state of Nebraska. It's spent not just where...near a factory that might have come in, but it's spent in every community, large and small, in the state. A lot of this money will be spent on medical services and medical services are something that are dearly needed in rural areas that have a hard time keeping clinics there, keeping doctors there, because there's not enough income for those clinics and doctors. This is a way of helping with that. So I urge you to meld these bills together into something that works. And I would also ask you to add in the bills that deal with both military and federal retirees. We agree that that's important to keep those retirees in Nebraska and virtually all of them live near Bellevue and virtually all of them are really close to the river and they're really close to Iowa and every single one of them would save a ton of money by moving over to Iowa. With that, if you have an questions, I'll be glad to try to answer them. [LB17]

SENATOR HADLEY: Questions? [LB17]

SENATOR SCHUMACHER: Thank you, Senator Hadley. What basically do you see as about the average Social Security check for husband and wife? [LB17]

JOHN JENSEN: I know for an individual, the average nationwide is around $1,200 a month. [LB17]

SENATOR SCHUMACHER: Okay. I used $1,800 because I just was roughing it out here: $1,800, twelve months, $21,000; we don't tax half of it, so we're about $10,500 that's subject to tax. And I believe your testimony was that this bill would...there's $5,000 being paid, at least implied that that would be saved if we didn't tax it. Well, that would be a 50 percent rate of tax. We don't tax the 50 percent. [LB17]

JOHN JENSEN: Well, the cost to the state of Nebraska will be because that person will take their money to another state. [LB17]

SENATOR SCHUMACHER: But the number...the guy moving over to Iowa, I think you said that he'd save $5,000 in taxes if we pass this bill. [LB17]

JOHN JENSEN: Well, they're going to pay on 85 percent of their Social Security if they stay in the state of Nebraska and whatever their...it's probably about 6.8 percent for those individuals on their Social Security. And if it's for a husband and wife, it could easily be $40,000, $35,000, between the two of them, and so do the math of 6.8 percent times that amount. It's more than a couple hundred dollars. [LB17]

SENATOR SCHUMACHER: You're saying $40,000 Social Security income? [LB17]

JOHN JENSEN: A husband and wife who both worked and retired, yes, they can easily get more than $20,000 in Social Security income. If there's the two of them, then it could easily be $40,000. Even if the spouse didn't work, they still get half of what the other person got, so it would be $30,000. Anyway you cut it, and then you multiply that by the top tax rate here in the state which is 6.8-something percent, it's enough to say, it's worth my going to the state of Iowa. By the way, the state of Iowa also exempts a portion of public pension income. [LB17]

SENATOR SCHUMACHER: So let's pick up on that, the pension income, the military income, those folks didn't pay money on that, in taxes on that, going into the fund, and now the thought that you're suggesting is that they not pay taxes on it coming out of that fund. [LB17]

JOHN JENSEN: Well, they don't get Social Security. [LB17]

SENATOR SCHUMACHER: Well, the pension, that they not pay taxes on, however they earn that money, they didn't have to pay taxes on whatever was contributed to that fund on their behalf and that they not pay it coming out. How is that fair to the farmer who bought a farm and paid taxes on the income of that farm when he sold his grain, paid down the farm during his lifetime, and now is renting that farm out to a tenant? And I don't see any of these proposals suggesting, unless we eliminate the income tax altogether, suggesting that that farmer's retirement income, his rent should be exempt. Why would we exempt some pension theories and not that pension theory? [LB17]

JOHN JENSEN: Are you talking about military pension? [LB17]

SENATOR SCHUMACHER: That would be one of the suggestions. I want to know why the farmer's rent isn't exempt. [LB17]

JOHN JENSEN: I can't answer that question for you, sir. [LB17]

SENATOR SCHUMACHER: Thank you. [LB17]

JOHN JENSEN: I think I need to clarify something. I think I heard this. On Social Security, if you had $36,000 in income, how much would you pay on that in Social Security and it's at the 50 percent rate, but it's not 50 percent of the difference between $32,000 and $36,000, it's 50 percent of the entire $36,000, the entire amount. And as soon as you go above the $44,000 as a married couple, it doesn't go from 50 percent on the amount above $44,000, it goes on 85 percent of everything. And so it looks like this. And so you get some couple making $31,500 one year, they're going to pay no tax on Social Security. And all of a sudden next year Social Security goes up $501, they're going to pay tax on 50 percent of it. All of a sudden it goes from zero to this. [LB17]

SENATOR HADLEY: Mr. Rea, I don't think that's correct at all. I can take a minute and read you actually the socials, the income tax... [LB17]

JOHN JENSEN: Jensen, Jensen. [LB17]

SENATOR HADLEY: ...I mean, Mr. Jensen. For a...let's take a single person. The base is $25,000. That is not ever taxed. For a single person up to $30,000...between $25,000 and $34,000, the next $9,000, half of that is taxed, $4,500. Above $34,000, 85 percent of it is taxed, but it's on the incremental amount above $34,000. You still get the $25,000 that is not taxed; you still get half of between $25,000 and $34,000 that is not taxed; and then above $34,000, 15 percent is exempted and the rest is taxed. [LB17]

JOHN JENSEN: I certainly don't want to argue with the Chair of committee... [LB17]

SENATOR HADLEY: Okay, well, I... [LB17]

JOHN JENSEN: ...but I pay on 85 percent of all Social Security income, all of it. [LB17]

SENATOR HADLEY: Okay. Did you have a... [LB17]

SENATOR HARR: I did, thank you. First of all, recommendation, get a new accountant.

But on a serious note, you talk about pension income and you're saying the next couple of days we've got to decide who pays pension income and who pays taxes on pension income and who doesn't. Where do you want to draw the line? Do we draw it police and fire because they're public employees? Do we draw it at teachers union because they're public employees? Do we draw it at...what differentiates a military individual from a firefighter? [LB17]

JOHN JENSEN: Well, I can...I'm a retired teacher. [LB17]

SENATOR HARR: Okay. [LB17]

JOHN JENSEN: And we're not included in any of these. [LB17]

SENATOR HARR: And I'm not saying you are, but maybe we should. [LB17]

JOHN JENSEN: Well, the reason we have Social Security, but that does not affect retirees from the military and retirees from federal work. [LB17]

SENATOR HARR: Okay. [LB17]

JOHN JENSEN: And, therefore, since they're not going...they would not get a break from the Social Security taxes and then... [LB17]

SENATOR HARR: That's your difference? So Omaha police officers... [LB17]

JOHN JENSEN: And I know that there's a real concerted push from the Bellevue area to exempt these pensions so that the folks don't move away. [LB17]

SENATOR HARR: Okay. So Omaha police officers and firefighters do not pay into Social Security. Should they be exempt? [LB17]

JOHN JENSEN: Well, they're not in any of the bills. [LB17]

SENATOR HARR: That wasn't the question, though, was it? You're a teacher, you know a question and an answer. (Laugh) [LB17]

JOHN JENSEN: You know, if you're talking about me personally, yeah, they should. [LB17]

SENATOR HARR: Okay. That's great. [LB17]

JOHN JENSEN: But, it's not me personally. [LB17]

SENATOR HARR: And so you're drawing...and just so to clarify, and I think I do understand, but I just want to clarify the record. You're saying if you don't pay into Social Security, your pension plan doesn't pay...it excludes you from Social Security. Your pension benefits should also be excluded to the same degree as Social Security is. Right. I mean, that's kind of what you're saying. [LB17]

JOHN JENSEN: Yeah, and my... [LB17]

SENATOR HARR: That's fair. That's fair. [LB17]

JOHN JENSEN: ...my suggestion at the end is when you meld these together, perhaps, say whether it's military or federal pensions or Social Security, the first $20,000 of that income is excluded. [LB17]

SENATOR HARR: Okay. [LB17]

JOHN JENSEN: You know, that would affect all of those folks exactly the same way. [LB17]

SENATOR HARR: It wouldn't hit your military...or you wouldn't hit your Omaha police and fire? [LB17]

JOHN JENSEN: It wouldn't unless you put them into the bill. [LB17]

SENATOR HARR: Yeah, okay. And that's fine. [LB17]

JOHN JENSEN: And also the State Patrol. [LB17]

SENATOR HARR: Yeah, and...oh, yeah. Thank you. So we're having a long conversation about cost benefit, and what is the cost benefit to a state and to an individual retiree, and how do we determine what that is. And a person who has lived their whole life in Nebraska, it may be a cost benefit to them personally to leave the state. The question, I guess, the state needs to be able to ask and I think we need to be able to answer somehow is, is there a cost benefit to the state to have, I mean...and this is half tongue in cheek, but if all we're looking at is cost benefit, isn't there a cost benefit to maybe having elderly people leave the state? And I don't know the answer to it, but I think maybe the state needs to investigate that if that's all we look at and to increase taxes to encourage, if there is enough liability for older people, to create a tax to encourage individuals to leave the state. [LB17]

JOHN JENSEN: There's been studies by other states. [LB17]

SENATOR HARR: Yeah. [LB17]

JOHN JENSEN: The most recent that I know of, there's two of them, one from Louisiana, one from Nevada, both came to the same conclusion that it's to the state's advantage to have retirees move into the state. The reason why is that the money that these retirees spend is pretty cheap because you don't have...they don't have children so you don't have to build schools, you don't have to pay the teachers for their children because they're gone, they don't use the roads as much, they don't use public services as much. There's a lot of things that they don't do as much and they don't cost as much. But they do use medical services which is good for the state. They do buy in the local stores. That is good for the state. And one more thing is that the money that they get from Social Security and the federal pensions is money that comes in--and Medicare too, by the way--is money that comes in from outside the state. And that's much better for a state to get income from outside the state coming in than for me to get a haircut, and I pay way too much, 20 bucks with my hair, and that's a transfer within the state. That's not as good for the economy than if that 20 bucks comes from Washington, D.C., in a Social Security check to me. [LB17]

SENATOR HARR: Is it your contention, though, that then using your argument that we should create a tax law to discourage either kids or kids moving into an area because they're, in fact, a liability? [LB17]

JOHN JENSEN: No, no. Nebraska has two cohorts that are moving away from the state is...it's those who are 55 to 65 and those who are in their 20s. The state already has a problem with keeping young people here, but they also have the problem of keeping those who are retiring here. [LB17]

SENATOR HARR: But if we look merely at cost benefit, children are a liability, and so we should create a tax policy that would discourage this liability. Either you don't have kids here or, if you do have kids here, we tax you. The poor are probably a liability to our society and we don't create tax policies to encourage the poor. I mean, we actually, to our credit, we have a progressive tax policy right now. We don't have a regressive tax policy. If we wanted to look at merely a cost benefit, we would have a highly regressive and we would want to force or encourage the poor or those with children or children themselves to leave the state. That's the downfall sometimes when we look at cost benefit. And so I think we always have to be careful if that's all we rely on. We have to look at what's in the...always when we're policymakers. You personally have an issue because you want to look at cost benefit and that's fine, but I think we as policymakers have a different priority. We have to look at the big picture. There are those who would make an argument and made the argument to us previously that the only people that really matter are job creators; everyone else is a suck on society. I don't necessarily agree with that rhetoric either, but it seems as though if you are that body, whatever that cohort is, you want to make sure you come out ahead and you want to say that you're the best cohort. And you want that tax policy to apply to you and you want the best policy for your cohort. And I understand that and I don't necessarily fault you for it. I would love to say that we state senators are only paid $12,000. I think we're worth more than that. Maybe we shouldn't have to pay state income tax. There's an argument. We provide more than $12,000 worth of value to the state. Why are we paying state income tax? Now, obviously, I'm not advocating that but the argument could be made. And so while I understand the argument you make, I think, unfortunately, we as policymakers have to look at the broader picture and it's going to be a fun conversation we're going to have in Revenue not just today and tomorrow but probably throughout this spring as far as setting priorities of who and what we want to be as a state. So I thank you for coming down here and presenting your views. I think there...it's great dialogue. It's great to have the conversation, so you're to be commended. [LB17]

JOHN JENSEN: I brought up the economic part of it because as I was sitting back in the audience listening to all your questions, there were a lot of questions from you on the economy of it. And so, I think we have to look at the overall picture and that's why I brought that up. [LB17]

SENATOR HARR: Okay. Well, thank you. [LB17]

JOHN JENSEN: You bet. [LB17]

SENATOR HARR: And thank you...and I do thank you for coming down here too and braving the weather. [LB17]

SENATOR HADLEY: Thank you, Mr. Jensen. [LB17]

JOHN JENSEN: Uh-huh. [LB17]

SENATOR HADLEY: Are there any other proponents? How many other proponents do we have? Is this the last one? Okay, thank you. [LB17]

AL MUMM: Good afternoon, Senator Hadley and members of the committee. My name is Al Mumm, M-u-m-m. I'm president of the Nebraska Alliance for Retired Americans. We're nationwide...part of a nationwide group that advocates for the rights and benefits of retired citizens. I just want to be fairly brief. I just want to give you some examples of what some other states do. It's been brought out here by some of the other testifiers, Iowa in 2014 will no longer tax Social Security and some of their pension income is exempt. Missouri doesn't tax Social Security or pension income. Wyoming has no income tax. Colorado exempts some retiree income. Kansas doesn't tax Social Security up to $75,000, which is similar to Senator Nordquist's bill. There are several states that actively have commissions or groups that, on behalf of the states, that actively pursue getting people to retire to their locations: Maryland, Arkansas, and Louisiana, Florida, Tennessee, North Carolina, to name some. Georgia. They see an economic benefit not only to having...to attracting retirees but also to keeping the ones that they have. And many people who have come before me have testified quite a bit about the economic impact. The ARA is supportive of any bill that would lessen the income...lessen retiree income being taxed. We understand...we feel strongly that because of the...that this is not a revenue reducer, it's a revenue enhancer because if you keep these people in the state, they spend their money here. Social Security income is outside money, as opposed to someone who quits a job and leaves Nebraska. That job money still stays here when someone else goes into that job. If someone on Social Security leaves Nebraska, that money is gone forever. Just an example, as it currently stands, in South Dakota an individual can accumulate large amounts in pretax retirement account while working in Nebraska and then move across the state line to South Dakota, that doesn't tax pension withdrawals, without worrying about Nebraska attempting to collect taxes on the accounts. And I appreciate what you said Senator Harr that this is not just an economic impact issue. It's an issue of fairness, as has been pointed out here before, that retirees have paid into Social Security all their lives and we don't feel it should be taxed. Now, we know there is big issues...there's several bills before the Legislature or before this committee, and we're in support of any of them that exempt retiree income from taxation. And we know there's larger bills coming before you talking about income and sales tax altogether, so there's a lot on your plate. But we want to...just wanted to add our voice to the people who are in support of reducing income of retirees being taxed. That's basically all I've got, if you've got a question. [LB17]

SENATOR HADLEY: Senator Schumacher. [LB17]

SENATOR SCHUMACHER: Thank you, Senator Hadley. Just one question. To the extent we reduce income of retirees, who do we shift that loss of revenue to? [LB17]

AL MUMM: Well, I think...I'm not, you know, I'm not here in position to pick and choose groups. I guess you have a bill from the Governor that's going to take away income tax from everybody. Who is he going...how are you going to pay for that? I mean, those are all the questions you guys are going to be tackling pretty soon here. I think if 40-some, 40-plus states in the country don't tax Social Security, do they make it up some other way? I think they look at the overall economic impact and say that you look at, black and white, it costs the state $30 million, but do you look at how much income the state realizes by keeping and attracting retirees? And I think that there's information coming from another neutral party coming after me that could give you some more information about those kind of numbers. [LB17]

SENATOR SCHUMACHER: Thank you. [LB17]

SENATOR HADLEY: Any questions? Senator Harr. [LB17]

SENATOR HARR: Thank you, Mr. Chairman. I just want to help Senator Beau McCoy build the case for his legislation we will be hearing soon. Would you prefer to see this bill or would you prefer to see a lowering of the overall tax rate? [LB17]

AL MUMM: I would...if you're looking at all the bills before the Revenue Committee regarding retirement income, I would as soon exempt income up to a certain level, period, all retirement income, and regardless of who you are, police, firemen, whatever. In regards to my taking a position on LB406 or LB405,... [LB17]

SENATOR HARR: Yeah, I'm trying... [LB17]

AL MUMM: ...we aren't at this, today, taking a position on either one of those bills. [LB17]

SENATOR HARR: And I'm not asking you. But I guess my overall question is it better to lower your tax specifically or to do a general tax breakdown to, is it, 2.8? Is that what it is, Senator McCoy? You have two, LB405 and LB406; one is 0 and the other is 2 point...? Okay, whatever it is, let's pretend it's 2.8 then. Do you guys have a priority as far as... [LB17]

AL MUMM: I understand. [LB17]

SENATOR HARR: Okay. [LB17]

AL MUMM: I understand what you're saying is, do we...the ARA hasn't taken a position on lowering all of the income tax rates. Obviously, we realize there's a revenue issue there as in the Governor's bills. He wants to keep anything revenue neutral, so if you lowered the income tax rate, you have to make up for that somewhere else by taking away...they're talking about sales tax exemptions. We have not taken a position on that but I, in regards to the...right now, I'm just here to testify in regards to the bills that are retiree specifically. [LB17]

SENATOR HARR: And that's fair. Okay. Thank you very much. I appreciate your time. [LB17]

AL MUMM: Okay. [LB17]

SENATOR HADLEY: I just have, I guess, one quick comment. And I know that this is primarily a hearing based on financial aspects. But, you know, again going back and reading the data, that it says that retirees are now taking many more things into account than strictly financial items. And I want to make that point again because I can tell you that Bellevue, we talked about Bellevue earlier, was named number five on where homes are most affordable by Money magazine. Bellevue, Sarpy County, ranked 11th on the list of where the jobs are for retirees that, you know, want to work. Papillion was named number one on the ten top small towns by livability. So I think if we focus strictly on the dollars, those dollars also go to fund other things that make Nebraska a livable place. It funds the University of Nebraska at Omaha for their programs. It funds libraries. It funds police protection. It funds fire protection. It funds a good education system. And I think all of those things go into people's decision about where to live. And I don't think it's strictly black and white that a lot of people say, I'm going to save $30 a month so I'm going to move to Missouri because they don't tax my income. So I think we, when we make policy decisions, I hope we take into account everything. I think taxation is part of it, but there are other things that we try to make Nebraska a livable place from everybody from the babies to the elderly. And one last thing, I think the argument that I've heard that has resonated the most to me is the lower income people, working with them. I still do have a problem with somebody who is making $150,000 a year and we want to exempt their retirement. I just have a problem with that kind of concept. I'll leave it with that. [LB17]

AL MUMM: Was there a question there or was that just a comment? (Laugh) [LB17]

SENATOR HADLEY: No, that was more of a comment, so. [LB17]

AL MUMM: Okay. [LB17]

SENATOR HADLEY: Thank you, Mr. Mumm. I...no other proponents? Are there opponents? Anyone in the neutral? [LB17]

DAVID DROZD: (Exhibit 8) I'll let those handouts get passed out before I begin, but I just wanted to mention up-front, I'm quite grateful to Chair Hadley for allowing the full time limit, not a limit on our speaking minutes, because my statistical data is hard to get through in a three-minute time limit. So I'll be about five minutes, five to six minutes. [LB17]

SENATOR HADLEY: Okay. That would be fine. Thank you. [LB17]

DAVID DROZD: But I do appreciate that; won't have to talk nearly as quickly. Members of the committee, my name is David Drozd, that's D-a-v-i-d D-r-o-z-d, and I'm the research coordinator for the Center of Public Affairs Research at the University of Nebraska at Omaha, here today to testify in a neutral position not only on this bill, but my comments would apply to all of the bills that we're dealing with over the next couple of days here. I just want to give you the background of some of the population demographics. A lot of this you might be aware of, but I wanted to give some of the specific figures and answer your questions. So, our office serves as the lead agency for the Nebraska State Data Center, and we serve as liaison to the U.S. Census Bureau for Nebraska, so we have a vast access to a wide variety of census data. We analyze those for demographic trends in the state and provide information to policymakers and other parties including the media. Again, this testimony will focus not only on this bill but in general for the environment in which we currently live and will be going into over the next several years. So let's start with the baby boom. I'm pretty sure you have a pretty good idea of what this is but, of course, the period of increased births from 1946 to 1964. So it is nearly a 20-year period in which births occurred at a higher level. As you likely know, in 2011 the leading edge of the baby boomers started turning age 65, so it's for the next 20 years that we're going to have a relatively higher number of individuals reach the sale...age milestone. And the obvious implication for that as it relates to these bills, of course, is that a relatively higher number of individuals will be eligible to draw retirement benefits, such as Social Security, per the age requirements of such programs. So slide two here on the handout illustrates the structure of Nebraska's population. Baby boomers, shown in the red checker, comprise some of the largest segments of the state's population. And that's especially true in certain parts of the state. The 2010 census found that Nebraska was home to about 472,000 baby boomers aged 45 to 64. That was the specific age category in 2010, and we also have about 250,000 seniors who are age 65 or older to whom some of these bill's policies might apply. Baby boomers themselves represent about a quarter of the state's population. So we know that the baby boom generation is a pretty large share. We also know that as people approach and reach retirement age, traditionally they've tended to leave the state. Slide three illustrates the net migration rates between 2000 and 2010, and that they turn negative for those aged 55 to 59, illustrating an out-migration where more people are moving out, on net, than coming here to Nebraska. The out-migration rate accelerates for those age 60 to 64 and bottoms, or is most negative, for those who are 65 to 69. And out-migration also occurred for those who were 70 to 74 in the last decade. So if we put the information from those two slides next to each other, we're going to have a large segment of our population age into the years in which they're apt to move away from the state, creating the potential for a large net out-migration of our baby boomers, not only for the next few years but for the next subsequent 15 to 20 as well. Based on various methods of analysis, Nebraska could lose around 10,000 or more people of baby boom age, I should say, at, near, or in retirement, over the next decade. The out-migration of this segment of the population does lead to Nebraska performing relatively poorly from a population growth standpoint in comparison to other states. Slide four shows that while Nebraska had the 30th fastest growth rate during the 2000s overall, we ranked in the bottom ten states for most older five-year age groups. For those age 65 to 69, Nebraska's growth rate was only half of the U.S. average and it ranked 48th among the states and the District of Columbia. For all people age 65 and older, we only ranked 44th. Older out-migration also has an effect on Nebraska's income structure. Slide five shows that more than eight in ten Nebraska households have some sort of wage salary or self-employment income, referred to here as earnings. That ranks tenth highest for the percentage of households that have earnings among all states. Nebraska also ranks relatively high at 16th regarding households that have interest, dividend, or a net rental income. Contrast that with relatively low rankings on the receipt of Social Security or railroad retirement income, where the percentage of

Nebraska households receiving such income ranks 36th. Finally, Nebraska ranks next to last in the percentage of households receiving retirement income, such as pensions. So from this data and that's been presented previously in my testimony, it does lead to a conclusion. Comparing to other states, a relatively small portion of Nebraskans do retire and remain here. Why is this important? Give two reasons to conclude my remarks. First, population totals drive political power, so when the decennial census is done, it's to take in a portion of the House of Representatives. You all know we have three representatives, but that could well shrink to two after the 2020 census. Slide six, this is a bit technical, shows that our third seat had, not 3rd District but third seat, had a ranking, the apportionment calculation, of 417 here in 2010; 435 is again the cut line. So again, we have 18 spots to spare before we get to that portion where we would lose a seat in the House of Representatives. The slide also shows that in some prior decades we have lost more than those 18 seats, so it is definitely a possibility and projections by our office do show us, based on a lot of different assumptions and things that could still change, we're going to be close to that cut line. So the decisions and policies that we put in place now over the next few years will impact the likelihood of people moving into and out of our state. I have stated publicly in the media previously that if people age 55 to 74 do move out of the state per past trends, they will likely take a Nebraska Congressional seat with them. Secondly, I mentioned baby boomers comprise a relatively large share of the state's population. It's especially true in certain parts of the state. Slide seven shows the population by single year of age for our 74 most rural communities...or counties. The baby boom generation is by far the dominant population group in these counties. Those out of high school make up a much smaller portion in the rural part of the state, given out-migration to the state's urban centers or out of state altogether. Thus, for rural Nebraska it does beg the question, if baby boomers move out upon retirement per past trends, who will be left in these communities? Will there be enough people there to support local businesses and to maintain a viable and vibrant community? So the potential out-migration of baby boomers does not bode well for future population change in these types of counties, rural counties that are especially relatively older. Any policies that the state can make to make it more attractive or competitive as a place to live, will likely have a positive impact from a population standpoint. So I hope this testimony has provided a sense of the local dynamics that we face as the population ages per the discussion of this bill and the ones that you'll have over the next couple of days. I'd be happy to answer the questions that you might have. [LB17]

SENATOR HADLEY: Senator Harr. [LB17]

SENATOR HARR: And I think I just need to clarify this in my head too. Is railroad retirement taxed? [LB17]

DAVID DROZD: Is it taxed? [LB17]

SENATOR HARR: Is income tax on railroad retirement? [LB17]

DAVID DROZD: Well, I am not a tax specialist. When it comes to the item you saw in the slide regarding Social Security, they include that in the way the question is asked, given that people who are on the railroad do not...do not pay into Social Security. So it's a different program. [LB17]

SENATOR HARR: Yeah, and I understand that, but I guess my question is, is retirement, railroad retirement taxed? [LB17]

DAVID DROZD: I'm not in a position where I can answer that question. [LB17]

SENATOR HARR: Okay. And I think the answer is no. So then the question becomes, and this would be a great something for you to follow up on, is to look at the number of railroad retirees who leave the state upon retirement and then compare that to the number of Social Security recipients who leave the state upon retirement and to see if there's a difference or a correlation to see...because if they're not paying taxes, the assumption would be they would stay at a much larger number than Social Security recipients who do pay taxes. I think that's probably as close as we're going to get to a control group to see what percentage of people are driven out of the state due to Social Security. [LB17]

DAVID DROZD: That's a really good point and there would be data where we could look at that. They don't specify whether they're necessarily receiving Social Security or independent of retirement...or railroad retirement. So, one of the problems from a data standpoint when we look at various analyses is that a state-to-state move is somewhat rare to begin with. And when you start breaking it by age or program or something like that, the survey data gets a little iffy and that makes it difficult to draw conclusions. [LB17]

SENATOR HARR: Okay, so let me get this straight. You said state-to-state, meaning some moving from one state to another is relatively rare? [LB17]

DAVID DROZD: Well, what I mean is that when you try to hit it in a sample, it is hard to hit in the sample. So roughly, from census data nationally, about 17 percent of the population is moving in a given year. [LB17]

SENATOR HARR: Uh-huh. [LB17]

DAVID DROZD: So moving state-to-state is only like 2.5 percent, 3 percent of the general population. [LB17]

SENATOR HARR: Okay. [LB17]

DAVID DROZD: So it, as you tier down, it makes it harder to capture that in the data. [LB17]

SENATOR HARR: And by no means would I say the comparison would be perfect and the model would be perfect, but I think it would give us a better picture... [LB17]

DAVID DROZD: It would be interesting. [LB17]

SENATOR HARR: ...of how much of this is tax driven and how much of this is, as you say, there's somewhat of a control because people do leave state-to-state constantly. There's a 17 percent and...or 17 percent people constantly move, 2.5 percent are state-to-state. So the variable difference, the large...or that we could quantify that would be a difference, would be if you...whether you pay taxes or not. And I think that would give us, while not a perfect picture, I think it would give us a clearer picture than what we have today. And if you could get that to the committee, I think that would be very valuable. [LB17]

DAVID DROZD: I...that's what our office does with, you know, our speciality of census data. I have a pretty good understanding of what you're looking at. If you'd maybe get me an e-mail of that specifically, we'd work on it right away, you know. And... [LB17]

SENATOR HARR: Great. Thank you very much. I appreciate that. [LB17]

DAVID DROZD: ...I would just mention that we have tried doing those things before about like looking at the out-migration, say to Texas, and how much is younger people versus retirees. It gets difficult when you start splitting it that way, you know, specific to one state with that small pool of people. So that's why I didn't try to present anything of that nature. [LB17]

SENATOR HARR: And I freely admit that my worst class I ever had, grade I ever got, was in stats. So I would not try to...but I do remember that once you get to a pool of 33, it gets to be largely... [LB17]

DAVID DROZD: That's how many cases we would want to hit in that... [LB17]

SENATOR HARR: Yeah. [LB17]

DAVID DROZD: ...sample source, exactly. [LB17]

SENATOR HARR: Okay. Thank you very much. [LB17]

DAVID DROZD: You must have listened pretty well. (Laughter) [LB17]

SENATOR HADLEY: Senator Schumacher. [LB17]

SENATOR SCHUMACHER: Thank you, Senator Hadley. Is there anything in this data you presented us today that correlates the taxation of retirement income greater than $32,000 with any of this? [LB17]

DAVID DROZD: That's difficult. What I am presenting here is correlated but not causal. Okay. And we always talk about that difference, that it isn't cause/effect. [LB17]

SENATOR SCHUMACHER: And what year is correlated with that, with taxation? [LB17]

DAVID DROZD: Where I see it being correlated is when we look at those rankings and Nebraska was 48th regarding 65 to 69 specifically or relatively poor for all groups over 65. Is that when we compare to states that have a different structure, like Wyoming and South Dakota where the weather differential is not very great, that we are not performing as well as those states regarding their change in those population groups. So while we cannot say that it is necessarily due to the tax structure, there does seem to be some sort of relationship, and I think that's understandable from an intuitive standpoint. You're going to have some people move out of state no matter what the tax policy is just because they were moving for climate reasons, for family reasons, and whatnot. But you do have another group of individuals who are looking at those specific implications. And, you know, I could mention what my financial planner has told to me is that they tell their folks that Nebraska is a great state to work, not as great a state to retire. So, if they're asked by their clients, they give them that sort of taxation advice. So again, not causal, but there does appear to be some correlations to the reasons why we are not performing as well as some of our similar comparative states. [LB17]

SENATOR SCHUMACHER: For this category, age 65 to 69, we're number 48. Where be Iowa and South Dakota? [LB17]

DAVID DROZD: I'd have to pull that. South Dakota should be above that ranking, just again off the top of my head. It would not surprise me if Iowa was below us actually as one of the 50 or 51 on that ranking. But both Wyoming and South Dakota should be above us on that ranking, but it's all in the computer. It's just not all up here. [LB17]

SENATOR SCHUMACHER: The...I find it kind of interesting on the apportionment of Congressional seats that one of our bigger jumps down was between 1960 and 1970 when we had neither a sales or an income tax. [LB17]

DAVID DROZD: Yeah. And, of course, there's a lot of different things that were going on at that point in time. And that predates me, so I don't know all those particulars as well as I might know some of the more recent decades. But the point is that it's not only what's happening here but the growth rate nationally. And again, I mentioned a lot of different factors going into this. One of the things we're seeing of late is a slowdown in international in-migration. That's good for Nebraska from this competitive or where we're competing with other states basically if California and Arizona are maybe not growing quite as fast as they were previously, you know, before the housing boom...before the housing bust, I should say. So things are changing all the time and Nebraska is performing quite well from a population standpoint relatively right now. My worry is that we will start to see some baby boomers move out over the next five to ten years. [LB17]

SENATOR SCHUMACHER: But we're performing quite well, a lot of Hispanic migration in there. That's a big thing. [LB17]

DAVID DROZD: That's one of the key drivers. [LB17]

SENATOR SCHUMACHER: And if you look over this period of time, I think it wasn't so long ago we had five Congressional seats and lost two of them before we gauged in income or sales taxation. There's a lot of other dynamics behind these numbers than just picking on the taxes. We make a change of...in taxation policy for folks making more than $32,000 a year in retirement and this is just the silver bullet. [LB17]

DAVID DROZD: Yeah, from a population standpoint, it's definitely across the board, you know, that we just want to be competitive not only on taxes, but we want to have good schools too. And, of course, there's a trade-off there. And some of the rankings have been mentioned for Papillion or Omaha being good and schools is a big reason why, and relatively low cost of living. A lot of those rankings cannot fully incorporate property tax structures since that varies by jurisdictions. Say the Omaha metro has a lot of different property tax regulations, especially given that it's across different states. So that's different to take account into some of those rankings, so I'd caution a little bit on how they all work. But we have been doing really well and we need to try to take steps to, you know, bolster that and that's... [LB17]

SENATOR HADLEY: I have one just quick question on your chart three. [LB17]

DAVID DROZD: Yes. [LB17]

SENATOR HADLEY: What would be your hypothesis that from age 60 to 74 there's an out-migration, or to 74, and then from 75 to 85-plus people are coming back to Nebraska? How does...why... [LB17]

DAVID DROZD: That is true. [LB17]

SENATOR HADLEY: If the tax structure doesn't change for those people, so why did they come back to Nebraska? Or why are people coming to Nebraska? [LB17]

DAVID DROZD: What we hear, and from a professional standpoint, it appears to be that people come back for family reasons, either to be closer to their relatives, their kids and their grandkids, or that they need care themselves. So they come back so that they're close by to family who are still living in the state. So a lot of people, perhaps, consider in the move out some of the tax structure, but they can't always put a price on something like being able to see their child open their...see their grandchild open their birthday presents live versus just a picture of it that they're sent...you know, it's sent to them down in Arizona or Florida or wherever they're at. You know, there's this personal aspect of it that comes in, in addition to some of those care or other reasons. You hear anecdotally that people think, when they're working, that when they retire they'll play golf every day, but once they get there, that isn't quite as important to them as what it appeared to be before they experienced it. [LB17]

SENATOR HADLEY: Okay. Thank you. I can see an interesting scenario that could be built along that entire chart of why people in the young ages are coming to Nebraska, they leave for a little while, they come back to Nebraska, they leave for a little while, they come back to Nebraska. [LB17]

DAVID DROZD: Exactly. [LB17]

SENATOR HADLEY: So that's probably a discussion for another time, but that's... [LB17]

DAVID DROZD: Just of note, you know, when those people do come back, and it was mentioned by somebody else, where are they going to locate? If it is Omaha, they can easily go to the other side of the river, you know, so that...we might be...we don't want to put ourself at a disadvantage. Competitiveness is the... [LB17]

SENATOR HADLEY: If that was the case, why isn't Council Bluffs bigger than Omaha? If everything is so great in Council Bluffs, why is Omaha so much bigger? [LB17]

DAVID DROZD: You know, of course, it was developed much more through the years and... [LB17]

SENATOR HADLEY: But I mean, people can move right now. I mean, Council Bluffs can grow to the east. Why isn't Council Bluffs three times the size of Omaha if everything is so much better on that side of the river? Is the gambling better over on that side of the river, and...? [LB17]

DAVID DROZD: It would take a while, of course...take a while. And again, some of their recent policy changes have just gone into effect. So it will be a while before we can truly tell from the data how much of an impact. You know, do we see Nebraska to Iowa migrations pick up? We haven't seen it yet. [LB17]

SENATOR HADLEY: Okay. Senator Schumacher. [LB17]

SENATOR SCHUMACHER: Just a little bit on the flip side. Thank you, Senator Hadley. Just a little bit on the flip side of the coin, to the extent tax policy has anything to do with any of this, what would a tax policy that taxes prescription drugs and a tax policy that drives up the cost of electricity impact these people? [LB17]

DAVID DROZD: Well, there are obviously certain types of taxes and costs that are going to hit certain groups disproportionately. I see it when you look at inflation rates and people think of just the inflation rate of 3 percent. Well, anybody who has a lot of medical expenses, you know, or certain other groups say that they're...a lot of gas in commuting, in their inflation rate it's different. So, obviously, you're going to have different impacts. And if certain bills do have an impact that is on a certain population group more than another, they will adjust accordingly. [LB17]

SENATOR SCHUMACHER: Well, this population group is one that probably uses prescription drugs a little more than some of the others and they probably appreciate running their air conditioners in the summer a little bit. [LB17]

DAVID DROZD: Exactly. [LB17]

SENATOR SCHUMACHER: And, so I mean, all those things enter into the mix than just an income tax. [LB17]

DAVID DROZD: It definitely does. And one thing I should mention, you see it here on the slide, you know, from our standpoint we love policies that are across the board, be good for those who are 25 to 34, you know, our brain drain problem, you know that that's an issue, and their current children and potential future children. You know, so that would have a big impact also, but one of the reasons why I consider retirees to be the wild card as it relates to this committee is that they are probably making decisions based upon tax policy rather than your 25-year-old who, if they want to go to Chicago, they're going to go to Chicago for the night life and things to do and things of that nature. [LB17]

SENATOR HADLEY: I wish they would come to Kearney. (Laughter) Okay, thank you. [LB17]

DAVID DROZD: You bet. [LB17]

SENATOR HADLEY: I believe, Senator Nordquist, you wish to close so we'll turn the microphone...oh, I'm sorry is there another...I'm sorry. I'm sorry, there's another neutral.

[LB17]

JASON HAYES: (Exhibit 9) I will be brief. Good afternoon, Chairman Hadley and members of the Revenue Committee. For the record, my name is Jason Hayes, J-a-s-o-n H-a-y-e-s, and I represent the 28,000 members of the Nebraska State Education Association. NSEA has a neutral position on LB17, as well as the other bills that will be heard today. We believe the overall concept of reducing the tax burden upon our retired citizens population is a good one, especially in light of how other states exempt either all or a portion of such retirement income from state taxation. During the next few weeks the committee will be considering major changes as to how income is taxed in Nebraska. We would ask the committee to consider that, in whatever proposal is advanced, it be revenue neutral so as not to impact the state's overall ability to fund public education. As I stated, we believe the concept of reducing taxation for retirement income is a noble one as long as it does not place an additional burden upon the funding of public education in Nebraska. And thank you for your time. [LB17]

SENATOR HADLEY: Questions? Seeing none, thank you. [LB17]

JASON HAYES: Thank you. [LB17]

SENATOR HADLEY: Senator Nordquist. Thank you for a very interesting bill and a great conversation. [LB17]

SENATOR NORDQUIST: Well, thank you for your thoughtful questions. I, you know, there's a lot of discussion obviously about the impact of this on people moving in-migration and out-migration, and I'm not going to stand here and say that this will 100 percent be...turn on a magnet for people to move to Nebraska. But talking to the Department of Revenue, it sounds like they're estimating around 100,000 people in the state would be impacted. If you looked at the fiscal note, that would be an average of probably about $300 a check. And those are checks that are going into the pockets of, you know, we can certainly have a discussion about whether $32,000 is low income or middle income but it certainly...it certainly, I would attest, would claim them to be middle income Nebraskans. And I think that those dollars will be spent in our economy on prescription drugs, on healthcare. I brought this bill knowing, you know, we're working on our budget right now. I did want to make sure that we didn't leave with the assumption that we're going to have to...we would have to cut dollars to do this. The Governor proposed a budget that has a 4.9 percent year-over-year increase in this budget, which amounts to $360 million or $400 million, roughly, of growth over this biennium. Should this committee choose to move forward with this package or any smaller version of this package, much like we did last year with the tax-cut package, we would find a way to make it work should that be the will of the body. The last few years, you know, a year or two before I got elected I think pretty much all of you, maybe Senator Hansen and Senator Pirsch were here, in '07, when we passed the largest tax-cut package in the state. Last year, working with Senator McCoy and the Governor, we worked on a tax-cut package that was, I think will end up being $50 million to $70 million a year, roughly. I want to make sure that this is on the table for discussion should any future package of that size ever go forward. I think it's time that this should be a priority, so that's why I bring it to you and look forward to working with the committee. [LB17]

SENATOR HADLEY: Thank you. Any further questions? Thank you, Senator Nordquist, we appreciate it. [LB17]

SENATOR NORDQUIST: Thank you. [LB17]

SENATOR HADLEY: Earlier in my life, someone told me there was three ways to be a dictator. You could be a captain of a ship, take over a country, or be a professor. Well, I've learned a fourth one. You can be a Chair of a committee in the Legislature. (Laughter) And I'm going to use my prerogative. Senator Crawford is here and we're going to change the order just a little bit and hear Senator Crawford's bill which deals with retirement also. And then we will hear Senator Janssen's bill. He has asked that he would go last on his bill. So, Senator Crawford, is this your maiden voyage for introducing a bill?

SENATOR CRAWFORD: Yes, it is. Thank you.

SENATOR HADLEY: Oh, we will be very nice. This is a very...there is absolutely no truth to the rumor that we will ask you to drop your bill in the wastepaper basket on the way out.

SENATOR CRAWFORD: Oh, okay. Okay.

SENATOR HADLEY: There is no truth to that rumor, so. (Laughter)

SENATOR CRAWFORD: That's the standard of niceness today?

SENATOR HADLEY: That's the standard of niceness. (Laughter)

SENATOR CRAWFORD: (Exhibit 10) Good afternoon, Chairman Hadley and members of the Revenue Committee. My name is Sue Crawford, C-r-a-w-f-o-r-d, and I represent the 45th Legislative District in Bellevue, Offutt, and eastern Sarpy County. In my district and across the state of Nebraska, retirees are a valuable asset not only for their civic contributions but also for their contributions to our communities' economic vitality. According to the U.S. census, Nebraska has the highest state labor force participation rate among those leading-edge baby boomers aged 55 to 64, that group we were just discussing a little bit ago. However, the most recent census data found that Nebraska's population growth rate for those individuals...for individuals 65 to 69 was only half the national average and we ranked near the bottom in terms of retirees with pensions living and working here. Baby boomers have begun to retire, and over the next 15 to 20 years, over 450,000 Nebraska residents will reach retirement age. That number represents a quarter of the state's population and a large percentage of residents of Nebraska's 74 rural counties. While LB238 would benefit retirees in Nebraska for many professions, I want to spend a moment discussing a particular type of retiree that can be found in large numbers in my district, but also in other areas of the state, the military retiree. The average age of the military retiree is 43 years old. These retirees leave the military with a second or third career ahead of them and the offer of one paid move by the military on the table. Many have security clearances and other relevant experience that position them well for defense contracting work upon retirement. Some of these defense contractors stay in Sarpy County and work at Offutt or begin small businesses in the community. When military retirees leave the state, we as a state experience a trained drain, where individuals with valuable work experiences and resources to start small businesses or begin second careers, start their civilian life in our neighboring states or elsewhere, not Nebraska. LB238 would target the retirees of various professions most likely to be engaged in the economy, while ensuring that we're able to keep our commitment to local schools and Nebraska families by carefully targeting the tax benefit to try to maximize our return on investment. In communities across the state of Nebraska, most jobs are in small businesses. LB238 also serves as an incentive to encourage retirees to start small businesses. One example that I see in my district is Eagle Copy and Business Solutions, a business that's owned and operated by Billie and Jeff Leazenby. Billie is a former teacher who, along with her husband, now operate their office supply company in Bellevue. LB238 is carefully targeted in three key ways. One, the exemptions are tied dollar for dollar to other income earned in the state of Nebraska. Two, the bill excludes...includes, excuse me, exclusion maximums and income qualifications to preserve the fairness of our income tax system in Nebraska. And finally, the caps that are in the bill are competitive with caps found in Colorado and Missouri and yet provide substantial benefit for many of the retirees. Because of these targets, the fiscal note for this bill is only $6 million for out-years. Of Nebraskans who are in or near retirement age, many are still working. For residents over 65, Nebraska has the third highest state labor force participation rate, only behind Alaska and Washington, D.C. Thus, many current Nebraska residents of retirement age are working and may benefit from this exemption. Our communities would also benefit more as retirees stay to work and start small businesses. The bill as is drafted covers Social Security income, military retirement, and other public service pensions. We are also submitting today an amendment for your consideration that broadens the exemption to include all retiree income. We've requested a fiscal estimate from the Fiscal Office and we will forward that to you as soon as it arrives so that you may have that for your deliberations as well. We still expect that fiscal note to...we expect that fiscal note to still come in well below other options on the table. And we recognize that this bill is just one piece of a large picture of the debate that you're having now about what to do about tax policy and as well as how do we treat retirees in our tax policy in the state. This is one piece. It's focused very tightly on those retirees who are still engaged in the economy and creates incentives for those retirees. We also recognize that those retirees are looking at multiple facets as they decide where to live, so the attractiveness of the community is a component and that's part of why we've been so fortunate to retain as many of the retirees as we do in the Bellevue area and other communities. And that's also part of why we have tried to target the bill to make sure that we are ensuring that we still have...we are trying to protect our investments and our schools and other community amenities as well. Just give you one example, though: It is the case, as we said, that military retirees often have resources to move or have moved frequently and have resources to move, and one of the issues that they do consider is retiree benefits. And I just saw a flier. You know, it was talking...and it was a flier that was provided to military. It was talking about military friendly communities. And so it included multiple facets, including the issue of licensing in a state from...for a military retiree and spouse, portability of licenses. But, you know, one of those pieces on that sheet was also retiree benefits and so it has red light, yellow light, green light. So providing some incentive, some benefit to military retirees would get you off the red light on that front, and that's just one example of a tool that someone would use in making that kind of decision where retiree benefits does become a part of that conversation and that discussion, in addition to the example that was given by a previous testimony about a fiscal advisor, perhaps, bringing that discussion in as well. So, I have with me today Jim Ristow from the Bellevue Chamber of Commerce and he will also discuss some of the economic impact of retirees, of these economically engaged retirees in our community as well. And I'll be happy to answer questions that you have about the bill. [LB238]

SENATOR HADLEY: Are there senators...questions for Senator Crawford? Senator Harr. [LB238]

SENATOR HARR: Thank you, Mr. Chairman, and I'll be quick. I think this has possibly some good ideas in here, and just a couple of suggestions on how to make this possibly stronger, to make the argument stronger. And if you could get the answers, I'd appreciate it. Obviously, there are other states that do not tax military spending...or pensions. Is that correct? [LB238]

SENATOR CRAWFORD: There are other states that do not tax them at all and then there are states that have caps and exemptions for them, yes. [LB238]

SENATOR HARR: Okay. And I guess what...and that's great. So this is what we can do as, again, getting back to what we asked earlier on retirement, railroad retirement. We can look at the states that have no taxes on retirement income or military income, pension, and see what percentage of those military personnel leave within, let's say, five years. Then we can look at those that have a medium and see what percentage those leave within five years. And then we can look at Nebraska, which taxes them as income, and see what percentage leave in five years. And if your underlying hypothesis or presumption is correct, it will indicate that those states that don't, have a larger percentage. And it's a great way to build up the fact that people will stay if we don't tax them and then we can go to the next level of trying to show what is the economic impact of those individuals who stay. But we have to first show that they leave at a greater rate due to the taxes. I mean, we're just going to assume that's the only variable. But just to baseline, I think that's a great place to start. It's not perfect, just like I said with railroad retirement, but I think it's a way of showing because we're going to be able to show, state over state over state over state, a consistency if the underlying presumption and assumption in this case is correct. So if we can do that, I think that goes a long ways towards convincing the committee what we probably could or should do. So, that's more of a comment than a question, but thank you. [LB238]

SENATOR CRAWFORD: Sure. Well, and I think one of the points that you raise again and that we've raised here is that it is not the only factor, right? And so, one of the things that we're trying to do is add a retiree benefit to the calculation that includes these other factors as people are deciding where to go, where to stay. I mean, two states that are often mentioned when you talk about...when I was going door-to-door, actually three states that are often mentioned going door-to-door and people are talking about where they might move or why they might move, are Colorado, Iowa, and Missouri. [LB238]

SENATOR HARR: Uh-huh, but... [LB238]

SENATOR CRAWFORD: So I'll have to...and so...and in terms of the...you saw some stats on out-migration, in-migration. So in terms of that, just that one age category, 55 to 69, and again this is not just military retirees but this is that group 55 to 69 that's treated that we can talk about in terms of retirement benefits even more broadly. In terms of that one group, Colorado has a positive net migration rate. Iowa's net migration rate is minus .87. And Missouri has a positive net migration rate and our net migration rate is the worst of those groups. And I understand that that is not just military (inaudible). [LB238]

SENATOR HARR: Yeah. And we repeated that and we...we're late in the day and those stats have already been said. But what I'm trying to get at is, it helps us to...it provides an indication of how really important this is because if the idea is, you're right, it's just one of many. And so we as a committee have to sit down and decide how important is this. And so what we need are numbers and stats and data to show us to indicate more than just my buddy over here,... [LB238]

SENATOR CRAWFORD: Sure. [LB238]

SENATOR HARR: ...or I was walking doors, or whatever it may be. And this is a way of providing data and it's a way of showing how important this is, because they're talking with their feet. And so if they're aren't talking with their feet, then maybe it isn't so important. And so what we have to do is look at, as much as we can, why people are staying. And this is just one factor of many, I agree. But if it is so horrendous and it is a red light and it is the red light, don't stay, I think those numbers will show that people are walking with their feet and they're leaving the state because of this. Now, if it's an inconvenience, look, I don't want to pay taxes myself, but it's a part of living in a society and it's part of living in a state. And maybe they understand that or maybe they look at that, say, yeah, we're not taxed on our military...or we're taxed on our military income, but gosh, darn it, the schools are so good here. Or it may be, we don't have a lot of crime. We have a really good community here, and we invest in the arts. And so there are variables. But if the number one variable is paying taxes on your military pension, I think this data will indicate that because they will walk with the...we'll see it with where they stay and where they don't stay. Because me, personally, I may like Iowa and want to pay the tax of Iowa, but it costs me. It's just what was brought up earlier. It takes a while for the policy to catch up because it costs me money to move to Iowa. Well, guess what? The military get a free move,... [LB238]

SENATOR CRAWFORD: Right. [LB238]

SENATOR HARR: ...so that response is going to be immediate because they have a free move. So it tells us, I think, much more clearly whether this is working...whether people are...whether the tax on pension is really that important or just an inconvenience. And I think, you know, like I said, I think it's a good idea and we can have some data and I think the data will prove that and will make it stronger for the committee. [LB238]

SENATOR HADLEY: Other questions? Senator Pirsch. [LB238]

SENATOR PIRSCH: Thank you very much, Senator, for bringing this bill and the conversation. You know, with your formula here set forth in LB238, eligible retirees, you're only eligible for this to the extent that you have...you're receiving income in the state of Nebraska, right? So it's kind of a...according to your statement of intent said, eligible retirees must earn other income in the state of Nebraska to receive this exemption, right? [LB238]

SENATOR CRAWFORD: Correct. Correct. [LB238]

SENATOR PIRSCH: Okay. And that's why the fiscal note might be significantly lower than some of these other proposals, right? [LB238]

SENATOR CRAWFORD: Sure. It's a narrow group of retirees that we're targeting. [LB238]

SENATOR PIRSCH: Okay. [LB238]

SENATOR CRAWFORD: And it's not...this isn't reflected in the fiscal note necessarily, but it is important to see in the bigger picture then, these are also people that are paying taxes on those other...that other income that they're earning as well, so. And they're going to be paying sales and the property tax as well, so. But the fact that the fiscal note is smaller is in part because we are really focusing in on that one type of retiree, that economically engaged retiree. [LB238]

SENATOR PIRSCH: Well, I appreciate that. So this is a little bit more focused in the name of economic development than in the name, perhaps, of fairness, or...although you would say it's fair, right? [LB238]

SENATOR CRAWFORD: Yes. I would say...I think it is targeted in that way. [LB238]

SENATOR PIRSCH: Okay. [LB238]

SENATOR CRAWFORD: It has, because of its structure, it also has the advantage of targeting military retirees who have served the country and so we would have...we could make an argument that there are other values behind that as well and...but it's also, since it's not just tailored to that, we can also talk about public services, teachers, and firefighters and others who again often retire younger and then are engaged in the economy and so they're in that window that this bill targets. [LB238]

SENATOR PIRSCH: Okay. Great. That's very helpful, that clarification. Do you know...and you had pointed to a couple of other states, Colorado, I think, and Missouri had a statute. Is that how they structured there as well, that it's dependent upon you must earn other income in those states to receive the exemption, do you know? Or is that just the approach that you took in this one? [LB238]

SENATOR CRAWFORD: No, the caps are really targeted off of their caps as opposed and it doesn't necessarily require that you're earning other income. [LB238]

SENATOR PIRSCH: Okay. It's very helpful. [LB238]

SENATOR CRAWFORD: So for someone who...again, so the logic here is again that it's someone who is expecting to continue to be engaged in the economy. So for them, effectively, as they look at our cap, it's...because they're expecting to be engaged in the economy, our cap is relevant to them and it is competitive with the caps that are set in Colorado and Missouri while they're in that period of life where they're expecting to be engaged in the economy, either starting small businesses or a consulting practice or investing or substitute teaching. [LB238]

SENATOR PIRSCH: Yeah. Well, I really appreciate that. [LB238]

SENATOR HADLEY: Senator Schumacher, did you have a question? [LB238]

SENATOR SCHUMACHER: Thank you, Senator Hadley. I do have a couple, three questions relating to definitions and what's what and how they play in the fairness thing here. Retirement income you have defined as fairly limited kind of things. Except for maybe Social Security, a lot of Nebraskans don't have these other qualified plans or county retirement plans or State Patrol plans that are listed there. How do you view a situation where a farmer spends his whole life paying down the farm, and his retirement plan, his retirement income is the rent off of that farm? Is it not fair game for this type of theory? [LB238]

SENATOR CRAWFORD: Well, two responses: One, we did draft an amendment that's been passed around that broadens the definition of retirement. And as I said in my opening statement, we offer that for your consideration and have asked for a fiscal estimate of that amendment should you decide to incorporate that into the language, and we feel that the benefit is still targeted enough to be affordable with this broadening. Now, to your second question, the specific example of the farmer who gets cash rent now, we do not have cash rent as listed as retirement income. But again, I ask you to think about this bill as part of the bigger picture. So, in terms of larger Nebraska state tax policy, we do provide that farmer some benefits in terms of sales tax exemptions that allow the farm to make more profit for higher...higher cash rent. I mean, there are other tax policies that hit...you know, that provide benefits to that farmer. And so, I think, if we're thinking about fairness, we're thinking about the whole tax picture, not just this one bill or this one tax policy in particular, which is a very focused and targeted one. [LB238]

SENATOR SCHUMACHER: But the farmer paid tax on his crops, to pay down his farm, to now have something to rent out. He's out. Somebody who never paid tax on their contributions to one of these retirement plans, never paid tax going in, now gets to take income out as long as he matches it to some other nonretirement income. [LB238]

SENATOR CRAWFORD: Now, many...I believe many farmers, at least my parents were farmers, and they did receive Social Security benefits as farmers. And so for them, so that part of their retirement income would have been included in this bill. Their cash rent would be considered that other earned income still. So he's...so the farmer would get to exempt his Social Security income for that cash rent that he is now earning because he is still considered, in this bill, engaged in the economy. [LB238]

SENATOR SCHUMACHER: Okay. So now I get to the other two definitions which...nonretirement income. So from what you've just said, the farmer's cash rent or the cash rent off of an eightplex that somebody built to rent out, or since it was earned in the state, the dividends paid from a small business corporation to a retired person, that falls into the nonretirement income category, or does that fall into the definition of investment income which is not in the nonretirement income category? [LB238]

SENATOR CRAWFORD: And actually part of the amendment we did...we did exclude investment as an exception so that we could be sure to include that as nonretirement income now, so. [LB238]

SENATOR SCHUMACHER: So what is it when...? [LB238]

SENATOR CRAWFORD: So the...I'm not a tax specialist, but if cash rent is considered income, then it would be nonretirement income. I'm trying to remember the other examples that you gave. [LB238]

SENATOR SCHUMACHER: So cash rent for the farmer would not count as nonretirement income? [LB238]

SENATOR CRAWFORD: No, I'm saying, I think it would be nonretirement income so that if you made...if you made $20,000...if you were making $20,000 of cash rent, then...and you had $20,000 in Social Security benefit, then that would be a match you could make to exempt paying on that Social Security. [LB238]

SENATOR SCHUMACHER: So if I've got $1 million in a CD, okay, I put it in the bank, I'm drawing right now a pittance for interest but hopefully that changes, does that...can I offset that against my retirement benefit, if suppose I had one of those? [LB238]

SENATOR CRAWFORD: I believe what we did in our amendment was that we struck in...one of the things in the amendment is to strike investment income as an exception so that now it would be included so that that would be...but again, there are caps on how much you can exclude. So $1 million, you're not going to be able to exclude millions of dollars. [LB238]

SENATOR SCHUMACHER: No, but exclude a good chunk. So really, this favors the high-income retiree because he or she has got retirement income from one of these plans and he or she has got farm rents, interest off a million dollar CD, or whatever, to offset. So we're really...this is kind of the other end of the spectrum from some of the earlier things that we're trying to help people to put milk in the refrigerator. This is we're putting a Mercedes in the driveway. [LB238]

SENATOR CRAWFORD: I don't think we're...we're not putting Mercedes in the driveway and that...that's one of the reasons that we added to the bill an income cap so that your amount that you can exclude drops dollar for dollar as you go over the maximum income caps. So it is the case that your target is someone who makes...is an individual makes $60,000...well, I would say, you know, one of the maximum targets is someone who is making about $60,000 as an individual. And we did...well, so it is true that it benefits those retirees again who are economically engaged and so they are more middle income and we did put caps on it to make sure that we tried to keep that focus on those economically engaged retirees. But so, it's not Mercedes, but it's not milk. [LB238]

SENATOR SCHUMACHER: Maybe a Buick. So under the amendment, if my economic engagement is to go down to pick up my interest check at the bank once a month and I match that against any retirement income I have, I'm good to go to $120,000, provided I'm married. [LB238]

SENATOR CRAWFORD: I was going to say that you're married. Then let me clarify. You are able...well, you as an individual are earning...let me, I'm just trying to remember in terms of your individual versus a married couple. You're filing jointly. [LB238]

SENATOR SCHUMACHER: It looks like that that magic number is $120,000 on page 9 at the bottom. [LB238]

SENATOR CRAWFORD: Yeah. [LB238]

SENATOR SCHUMACHER: So if I can manage to pull $6,000...or $60,000 in interest off of my $1 million in CD, which would be great, and I've got a pension plan that I can draw against another $60,000, I can...I'm good to go. I don't pay tax. [LB238]

SENATOR CRAWFORD: No, that's not true. You would just...you would not be paying taxes on the...on the retirement pension income that you're matching there. So you're still going to be paying taxes on your investment income. So you're getting an exemption of your investment income for each dollar that you're bringing in, but we're going to still collect our taxes on that nonretiree income. [LB238]

SENATOR SCHUMACHER: I'm entitled though to exclude $1 of retirement income... [LB238]

SENATOR CRAWFORD: Correct. [LB238]

SENATOR SCHUMACHER: ...my $60,000 there, for every $1 of nonretirement income, my $60,000 in interest. So you're saying, I'll still pay on $60,000. [LB238]

SENATOR CRAWFORD: Correct. Correct. [LB238]

SENATOR SCHUMACHER: So I get a 50 percent tax break. [LB238]

SENATOR CRAWFORD: Correct in that case. [LB238]

SENATOR SCHUMACHER: Okay. [LB238]

SENATOR CRAWFORD: Now, it's important to keep in mind that, as we look at pensions, $60,000 is not a common pension. (Laugh) So maybe if somebody has multiple ones, they stacking together. But, for example, you know the most common military pension is...most military get pensions below $30,000. And, in fact, many of them are closer to $12,000. And an average teacher might get $17,000 (sic) of income per month. So we put those caps in there and this is something we can talk about is whether or not they seem reasonable caps. But if we're talking about most retirees, most retirees' pension, especially an individual retiree who happens to be married, we're not talking about $60,000 of pension. You might have a married couple and they might have both been fairly high-ranking and so they are getting that upper level pension. And that's part of what we were thinking is, in that case you might...you might with a married couple, with both of them having made a relatively high-ranking income before they retired, get close to that $60,000. [LB238]

SENATOR SCHUMACHER: So according to the studies you've done, when we were talking before that a married couple gets a $32,000 freebie up-front, that's pretty good. I mean, that's quite a lot of money compared to the numbers that you've just been talking. [LB238]

SENATOR CRAWFORD: You mean in Social Security deduction? [LB238]

SENATOR SCHUMACHER: Yeah, Social Security or anything to get them to the $32,000. That's...we're talking about most people being covered by that $32,000 exemption if they're retired. [LB238]

SENATOR CRAWFORD: I was...in the statements I was just making, I was talking about what I have seen in terms of military pensions and teacher pensions, just to clarify, so. [LB238]

SENATOR SCHUMACHER: Thank you. Thank you. [LB238]

SENATOR HADLEY: Senator Crawford, I...one of the things, I guess, we're charged with is to work with tax policy. And am I correct, in your plan a person could defer taxes by putting money into some type of tax-deferred retirement plan and, under your plan, then when they take it out, it would also be tax deferred in the state of Nebraska? Is that correct, so that the person would never pay taxes on that money up to the caps that you have given? [LB238]

SENATOR CRAWFORD: That may be true if it's matched against income that we are taxing, right. [LB238]

SENATOR HADLEY: But I guess I'm talking about I think one of... [LB238]

SENATOR CRAWFORD: In the state of Nebraska, it's not...yeah. [LB238]

SENATOR HADLEY: One of the concepts is that we want to, I think, as a society and government, we want to tax income at least once. [LB238]

SENATOR CRAWFORD: Right. [LB238]

SENATOR HADLEY: And I realize that we do dig our heels in when we start taxing it two or three times, but to go to zero, I guess, causes me some concern. Also, that if you have IRAs and such as that, that you have been able to defer Nebraska income tax when you put the money in, and now when you take it out we're also going to say you don't have to pay Nebraska taxes again, I guess I just have, from a policy standpoint, I have a concern. [LB238]

SENATOR CRAWFORD: It's an interesting puzzle. That's an interesting puzzle of whether it would make sense to exclude that. [LB238]

SENATOR HADLEY: That you've got to somehow prove that... [LB238]

SENATOR CRAWFORD: We were trying to be as inclusive as possible and that's part of why we structured the amendment to include all kinds of income that might be retiree income. Our narrower bill that we introduced wouldn't have had that same issue. But again, that would be something that could be discussed is whether or not that type of income falls into something separate and would be excluded in a different way. [LB238]

SENATOR HADLEY: And I guess my second question is, from a policy standpoint, you did make it very broad, but we spent a lot of time talking about military retirement. [LB238]

SENATOR CRAWFORD: Yes. [LB238]

SENATOR HADLEY: But it really is quite broad. It's anybody who is getting a retirement income and also then works, has other income. Is that a fair statement? [LB238]

SENATOR CRAWFORD: Correct. Correct. Yes, it's a very broad policy. Military retirees happen to be one group that I think would benefit greatly because it is structured...because they fit this mode, and so I think that one of the...and so that's why I focused on it. It's also an important population in my district that I'm very familiar with and that's why we talked about it. We do have an awful lot of retired teachers as well.

Many of them are substitute teaching or doing other...or starting small business like Billie Leazenby. And so it is true that the bill is structured to cover...to try to broadly cover just about...to cover many kinds of professions where someone is retiring, anyone who is retiring, even self...people who are self-employed who are retiring and now engaged in the economy in some way. [LB238]

SENATOR HADLEY: I...the last thing, I do compliment you for bringing it, because last night I was trying to figure it out and I was scratching my head, and thank goodness, I came in and talked to our counsel when we started with $1,000 of retirement income and $1,000 of nonretirement income to try and figure out. But I think, you know, I think it's an interesting concept because it does link the idea that they are working and gainfully employed in the state of Nebraska and contributing to the economy, vis-a-vis just saying we're exempting your retirement pay from all Nebraska taxes. So I compliment you on that very much. [LB238]

SENATOR CRAWFORD: Right. Right, right. And I...and, you know, to the extent it's used in recruitment and retention, part of it is having that tool and part of it is how it actually gets used in terms of how our communities choose to use it when they're talking to people. I just...you know, one scenario might be a...the hospital out in Oshkosh, Nebraska, needs a new paramedic and if this, a policy like this is in place, they can try to recruit a retired military paramedic. Talk about the fact that...and it would not be the only thing that would get somebody to live in Oshkosh but combined with talking...perhaps other benefits that the community could provide and the low cost of housing and the amenities of a beautiful lake nearby, that it would be a piece of, you know, of a package they could use in that way by local communities trying to recruit and retain medical personnel, medical professionals, which is another critical issue in our state. [LB238]

SENATOR HADLEY: Okay. Further questions? Seeing none, are you going to stick around for closing? [LB238]

SENATOR CRAWFORD: Yes, I will. Thank you. [LB238]

SENATOR HADLEY: Okay. Thank you. We will now hear from proponents. First proponent. [LB238]

JIM RISTOW: (Exhibit 11) I was kind of hoping Sue would wear you guys down before I got up here, so. I am Jim Ristow, J-i-m R-i-s-t-o-w and I'm the CEO of the Bellevue Chamber of Commerce. I'm pleased to represent the Bellevue business, Offutt community. Thank you, Chairman Hadley, and thank you, Senators, for allowing me to speak today about an important economic issue facing our state. The Bellevue-Offutt community supports the philosophy that drives legislative bills such as LB238. We support this legislation as it will attract and retain an experienced and disciplined work force, encourage growth, and expand the tax base. Recruiting talented people, not just for jobs but also to increase the population and customer base for Nebraska business, is a top priority for economic developers. In one instance of recruiting a national business to our community recently, the labor force that they sought were military dependents and retired service members. No doubt we face some serious economic challenges, some which seem to be our inability to compete successfully with other states for productive households. Our state continues to exhibit slow population growth, and between 2000 and 2010, only 24 counties experienced population growth, with many of these below the national average. Nebraska is the tenth most heavily out-migrated state for young, college-educated people. Our state needs continued and creative approaches to diminish the brain drain and retain our highly educated and skilled people. The Bellevue-Offutt community certainly supports such efforts. For example, this goes back probably 50 years ago, but the Bellevue Chamber of Commerce actually was the incubator in helping to start Bellevue University and applauds and supports the university's efforts to educate our states citizens, employees, future leaders, and along with our active duty members at Offutt Air Force Base. Most importantly, we believe that there is another demographic that we should work to attract and retain and that's the military retiree. The word "retiree" can conjure the thought of a person who no longer works. However, we're not talking about the traditional sense in that retiree. These highly skilled people selected a career in the armed forces, but after their commitment is fulfilled, they transition into another career or start up a business. The career or business opportunity can be in any business sector in any part of the country. The competition for these highly skilled individuals doesn't go unnoticed as competition for defense contracts in states such as Colorado are promoted based on their ability to recruit and retain military retirees based on the incentive of tax exemptions. Offutt Air Force Base attracts roughly 1,000 service members to our state annually, which is a great incubator for desirable population growth. The median age, as Sue had mentioned, of military retirees transitioning out of the service is 43. We want them to stay and choose Nebraska. These individuals have at least 20 years to invest in a new career or start-up company. As consumers, they need homes, goods, and services. They will start businesses or bring business to the state from other states, or join the existing work force. To name a few, Ashley Lynn's, Home Instead Senior Care, Vet Defense Services, the Garrett Group, RWR Innovations, and Suit Up! Tuxedos are start-up companies that military retirees and their families have started within our metropolitan area. Most recently, the new owner of Chick-fil-A in Bellevue is a retired military officer that relocated here with his family to take on a new adventure. As the CEO of the Bellevue Chamber of Commerce, I seek opportunities to speak on issues that impact community and economic development. In that role, it's important to communicate that Offutt Air Force Base is Nebraska's third largest employer. In 2012, its economic impact to our community was $1.3 billion; 9,980 military members and civilian employees work on base; 11,126 military family members and 10,845 retirees reside in the area; and the total payroll reached $652 million. We continuously showcase Bellevue, Sarpy County, the greater Omaha metro, and the state of Nebraska to our active duty guests. We want them to stay or return to be our neighbors, citizens, and employees. We want to attract technically skilled and educated people into our state that will aid in economic growth. We need to attract and retain our military retirees. I understand this committee, that you have tremendous financial duties and fiscal responsibilities. The decision to implement this measure must be carefully balanced with an analysis of potential lost revenue. In this case, we believe that the net result of enacting the proposed legislation would be to increase the number of talented people who settle in our state, growing our economic engine. Our purpose is to provide information regarding the positive benefits of this type of legislation and that is attract and retain experienced and disciplined work force, encourage population growth, and expand the tax base. We encourage you to advance LB238 to the floor, and open to any questions. [LB238]

SENATOR HADLEY: Questions for Mr. Ristow? Senator Schumacher. [LB238]

JIM RISTOW: Yes, sir. [LB238]

SENATOR SCHUMACHER: Thank you, Senator Hadley. What if, since the need seems to be to target these folks in your community to stick around here with their military retirement and their security clearances, and whatever ingenuity they have in the defense contracting kind of sector, what if we were to grant cities such as Bellevue the authority to grant a property tax exemption based upon the military retirement pay of the property tax owner? So if you wanted to, you'd have the option to say, hey, military retired people, we really want you to stay here and we will not charge you so much property tax. [LB238]

JIM RISTOW: That would be...if that's a comparable, it's an interesting analogy because that's another issue you hear from a lot of our military in active duty is the property tax on their homes is, depending where they come from, is always kind of an issue. But that's another viable entity to look at, and we're to retain them and keep them here, so. [LB238]

SENATOR SCHUMACHER: Well, the reason I throw the property tax in because then it's the locality that's going to be benefited that's got to make the decision whether it's got to distribute that property tax burden off to the other people who arguably are benefiting because everything is bubbling and flourishing and the sky is bright with sunshine. [LB238]

JIM RISTOW: Now the only thing that, and I'm not sure how you go about this, but a lot of the retirees do not just reside in Bellevue. Of course, they're spread out through Sarpy and Douglas County. [LB238]

SENATOR SCHUMACHER: And make it countywide. [LB238]

JIM RISTOW: Yeah. Well, you may have to reach out a little further, too, because you also have National Guard, Air National Guard. You know, you have some other outlets where they may retire within other parts of the community. I think Sue had mentioned if there's a hospital in Oshkosh that you want to recruit a paramedic to stay here, I'm not sure how you balance that but it's an interesting curve, but. [LB238]

SENATOR SCHUMACHER: Well, you advertise a keno game in Oshkosh to get them to go there. (Laughter) But the...but that would be an option. I mean, if Sarpy County says, look, we'll give you a property tax break if you stick around here with your military pay, and Douglas County doesn't, well, you know, they're probably going to...if this tax theory is true, they'll probably stay in Sarpy County. That would put the squeeze on Douglas County. All of a sudden we've got this race between the counties. [LB238]

JIM RISTOW: I'll behave myself and won't look for a border war, how's that now? [LB238]

SENATOR SCHUMACHER: Okay. All right. [LB238]

SENATOR HADLEY: Mr. Ristow, earlier, when we talked about Social Security retirement, there seemed to be a lack of data on, you know, whether people were leaving the state, coming in, why they were leaving. I would assume there's quite a bit of data of military retirees who retire from a particular base and whether or not they stay in that particular area. Would that be true? [LB238]

JIM RISTOW: And when Senator Harr mentioned that, we receive an economic impact statement from Offutt Air Force Base which shows us how many retirees stay within our areas because they can track where that retirement check is going. So the question may be to go to the other states that...and I think we're one of only five left that don't offer a benefit to the retired military. But, you know, we could look at significant size bases and say, you know, what is your population and what's that out-migration. And maybe that's the way we get at it, because they do know who stays within their community based on their checks, so I think... [LB238]

SENATOR HADLEY: I just think that might be an interesting statistic to have that could buttress the case that if we're not retaining as many military retirees as Tinker Air Force Base in Oklahoma or wherever it might be, you know, that would buttress the case, maybe we have to do something. Because with the Social Security, we always just kind of talk, well, we know people are leaving but we're not sure why they're leaving or how much the taxes play into it. But you would have data that says people, you know, they're retiring from Offutt Air Force Base and they're not staying in Nebraska. So, if we could have some of that data... [LB238]

JIM RISTOW: I think we can get at that, because in our impact statement of the 10,800 retirees that are here in Nebraska, I've got the data that shows what zip code they reside in and I'm sure we could do a comparative to another base and see what their numbers are. It's interesting, of a base that employs over 10,000 military members, that we only have 10,800 retirees here. And if we're bringing in 1,000 members annually at least, you know, you would think that there would be a natural growth. That 10,000 has not changed, as I look back at those impact statements, for the last maybe ten years. It's been a pretty static number. So, I mean, here locally it doesn't seem like it's...that population is growing. Now why they're out-migrating, there's probably multiple issues, but I think we could do a comparative and get a better answer to that. [LB238]

SENATOR HADLEY Yeah, and there might be data that says what percentage of military retirees do retire in the location of their last duty station, because I've had a number of friends who have retired from the military and that is not a completely uncommon phenomenon because they've spent four years, their families...you know, their children that are going to school and, you know, unless they... [LB238]

JIM RISTOW I'm a product of that. My dad is retired military and... [LB238]

SENATOR HADLEY: Was Offutt the last...? [LB238]

JIM RISTOW: ...you know, we were a Milwaukee native but, of course, when you're in the military, you travel a lot. And I think we probably were at 13 different bases and when we came here we came from Germany. So, the motivation at that time was get us out of school and then we were all leaving, and you can see that wagon train never departed for me. But I think we can get to that. [LB238]

SENATOR HADLEY: Good. Well, I just put that out there. Any other? Thank you, Mr. Ristow. Thank you. [LB238]

JIM RISTOW: Thank you, Senators. [LB238]

SENATOR HADLEY: Are there any other proponents? Opponents? Neutral? [LB238]

ROGER REA: Hello again, Senator Hadley and members of the committee. For the record, my name is Roger Rea, R-e-a, and I'm president of NSEA-Retired. While we support in general the concept of trying to make Nebraska more retiree friendly, this particular bill has some problems for us in that it seems to be a little bit too specific, to narrowly focused on one type of retiree group, and tries to carve out one set of retirees for a break that might be better administered to all retirees. So, I don't have much more to say than that. As you said when we first started this, me too, well, me almost. Okay. [LB238]

SENATOR HADLEY: I appreciate that. Any questions for Mr. Rea? Thank you, Mr. Rea. [LB238]

ROGER REA: Thank you. [LB238]

SENATOR HADLEY: Any other in the neutral? Seeing none, Senator Crawford, would you like to close? [LB238]

SENATOR CRAWFORD: Thank you, Chairman Hadley and members of the Revenue Committee, for this opportunity to come before you. And I thank you, too, Jim Ristow and other testifiers. I thank the testifiers who were testifying earlier in the day who made comments about this bill as well as LB17 in their commentary. This bill, LB238, as well as the other retiree tax bills that you're hearing today and will hear tomorrow, all share a desire to have Nebraska think carefully about how we tax retirees and provide an attractive tax climate for retirees. As we've all been discussing, when retirees leave they take their benefits and skills with them. As I've said with baby boomers beginning to retire and continue to retire over the next 15 to 20 years we'll see more and more...we can see more and more benefits leaving the state unless we take action. And yet as pressing as this need is, it's equally important that we do so in a way that's fiscally responsible and targeted to avoid shifting tax burdens in ways that harm working families or our school systems. LB238 does this by tying the benefit to other income and setting various limits on these exclusions. As we look at fiscally responsible ways to address this issue we also need to discuss the best way to phase in exclusions and help minimize cost shifts and unintended consequences. LB238 tackles a part of this larger tax issue in Nebraska regarding retirees. This bill is a partial solution to that larger issue of how we tax retirees and will help retain a critical segment of the retiree population, that group that's most economically engaged. And we could see this bill being included in other tax packages or tax bills and we are open to considering how the pieces of this bill might be incorporated in other...in the larger plan. And I look forward to working with my colleagues on other legislation that helps remedy this problem as well and addresses the concerns of all retiree Nebraskans. Thank you. [LB238]

SENATOR HADLEY: Any further questions for Senator Crawford? You survived and now you're a veteran in doing it. Thank you so much, Senator. [LB238]

SENATOR CRAWFORD: Thank you. Thank you. [LB238]

SENATOR HADLEY: Senator Janssen, we will be hearing the last bill. I believe it's LB74. Senator Janssen, you're clear to open on LB74. [LB74]

SENATOR JANSSEN: Thank you, fellow members of the Revenue Committee. My name is Charlie Janssen, C-h-a-r-l-i-e J-a-n-s-s-e-n. I represent the 15th Legislative

District, which is Fremont and all of Dodge County. I'm going to be extremely brief as this hearing is pretty much...would be similar to the earlier Senator Nordquist legislation we had forward. LB74 would exempt taxable Social Security benefits from Nebraska individual income tax. As you've noted in the bill, it doesn't include the limits. This is a similar bill...or it's an identical bill to what Senator Nordquist ran last year, sponsored last year, with the exception, the fiscal note on this is much higher and I believe that's due to it having a 2013 start date as opposed to being set off until the end of this year. And I think that was the difference Mr. Cavanaugh was speaking to earlier. So I went and looked up where that came from, so I think they would be similar...treated similarly if the date would have been the same. This bill wasn't introduced as a magic bullet that I heard earlier to keep all retirees here. I heard a lot about this as you were all aware. I just ran for reelection and I'm here, so obviously that worked. And this kept coming up and when I looked at bills to sponsor, had I probably seen the ones that were already in, we probably, maybe not put that in and worked with one of the other senators on their bills. But that being said, I'm happy to answer questions and I think we've pretty much talked about the questions on this. And I wanted to be brief because I know you guys want to get out of here and I can't leave until you do. [LB74]

SENATOR HADLEY: And we are going to Exec after we're done, so are there any questions? Seeing none, thank you, Senator Janssen. Are there proponents? [LB74]

ROGER REA: Hello, once again, Senator Hadley, members of the committee. [LB74]

SENATOR HADLEY: Mr. Rea. [LB74]

ROGER REA: For the record, I'm Roger Rea, R-o-g-e-r R-e-a, and I'm president of NSEA-Retired. All the comments I made relative to LB17 would apply again. I don't intend to read them again into the record or to present those exhibits again. I testified on behalf of LB976 in favor of it last year. I think this is a great concept. I'm concerned about the cost. Perhaps there's some way to phase this kind of an exemption in over a period of time, pare it down, combine it with some of the other bills. I think there's a number of bills that you have in front of you that can be combined together to come up with one good bill for all the retirees in the state. I'd like to say also to Senator Hadley, I appreciate your giving us the opportunity to finish our testimony. The last two times I've testified before this committee on bills involving Social Security, we were limited to one or two minutes. I didn't have a chance to say what I wanted to say. I really appreciate the opportunity to finish my remarks. [LB74]

SENATOR HADLEY: Thank you. We consider you our second house for we want to hear what the people of Nebraska have to say about their legislation. [LB74]

ROGER REA: Yeah. Thank you. With that, I'll close my comments. [LB74]

SENATOR HADLEY: Any questions? Thank you, Mr. Rea. [LB74]

ROGER REA: Thank you. [LB74]

SENATOR HADLEY: Any other proponents? [LB74]

JOHN JENSEN: I will also be very brief. John Jensen, J-o-h-n J-e-n-s-e-n. Senator Hadley, you mentioned that this committee is all about tax policy, and I agree. When I look around the country, federal taxes, I know that there's trillions of dollars that are never taxed at all. I know that for sure after seeing what Warren Buffett says he's taxed on and not taxed on, what the presidential candidates were taxed on and not taxed on. And many of those exceptions where they're not paid by through the federal tax system, they're also not paid through Nebraska's tax system. They're lost income to the state of Nebraska. So there's lots of places to look for tax policy that way. But Nebraska, I think you have to accept the fact that it's a true statement that Nebraska does not have a good tax policy for retirees. It has a black eye when you compare us to the rest of the country. And I don't think you as legislators want to have one section, one part of the population, whether it's farmers or businessmen or retirees, to have an extremely high tax situation compared to the rest of the country. And that's exactly what we have here in Nebraska for retirees, and I hope that you can find a solution from all of these bills into something that works. If it takes phasing in over three or four years, look at it that way, some way to cut it down so we can get a foot in the door and get this started. It would definitely be needed, not by the person who is still working but by the 75- and 80-year-old people who are your neighbors and my friends. I'm not quite that old yet, but when I get to be 75 and 80, I will not be working day labor, I'll tell you that. I'll still be active in other ways. [LB74]

SENATOR HADLEY: You don't want to be a senator? (Laughter) [LB74]

JOHN JENSEN: You know, that's probably the last thing in the world I'd want to do. (Laughter) So with that, thank you. [LB74]

SENATOR HADLEY: Thank you. Any questions? Thank you, Mr. Jensen. Appreciate it. Further proponents? [LB74]

AL MUMM: Good afternoon, again. My name is Al Mumm, M-u-m-m, president of the Nebraska Alliance for Retired Americans. I want to thank Senator Janssen, Senator Nordquist, all the senators who have introduced bills that are of interest to Nebraska's retirees. This has given everybody an opportunity to really look into this issue and I think only good can come out of that. We, obviously, would support...we're in favor of LB74 and LB17 as good first steps. I would prefer something that exempted all retirement income up to perhaps a certain level, which would address your concerns, Senator Schumacher, about retirement...farmers' rent income. Those farmers also are probably receiving Social Security, so they're affected by this too. But overall, I think it's good that we've got some bills here that...and these are, Senator Janssen, this is a good starting point. If we got nothing more than this, it would be a good step. As far as some of the things you mentioned, Senator Hadley, about places in Nebraska being high on the list of living places, I wish we were seeing an in-migration of people, and maybe we need to promote that better than we do. But I think these issues of taxation for retirees would be a good place to help promote our in-migration as well as halting out-migration of seniors. And also in regard to...we talk a lot, this committee talks, and rightfully so, a lot about the cost. I think, you know, in the past, Nebraska has given incentives to maybe large corporations or something to locate here to provide jobs and the...there's a certain cost to that. And we know the cost and we're never quite sure of the benefit. And I'm not arguing against the policy, by any means, but I look at this kind of the same way. If we make this an incentive to keep retirees in this state and to maybe even attract retirees to come to retire here, that's an economic stimulus, too, just like bringing a large corporation into the state or something like that. So I applaud the bills that are before the committee and we are in favor of anything that helps retirement income. And I know the committee has got a large...a lot on their plate and we appreciate all your efforts. And that's about all I've got, if you got any questions. [LB74]

SENATOR HADLEY: Okay. Senator Schumacher. [LB74]

SENATOR SCHUMACHER: Thank you, Senator Hadley. Just one brief question. You mentioned just now that one of the suggestions you might make is that we exempt all retirement income up to a certain level. What is a reasonable certain level, in your opinion? [LB74]

AL MUMM: I know...and it escapes me right off the bat as far as what state this is, but there are...and probably are several, $20,000. The first $20,000 is one that you hear a lot of exemption, of the first $20,000 of retirement income being exempted from income tax, state income tax. [LB74]

SENATOR SCHUMACHER: Right now, we're at $32,000 on joint returns. [LB74]

AL MUMM: That's on Social Security. You're exempting Social Security. I'm talking about income, all income. [LB74]

SENATOR SCHUMACHER: This is all income, all income. Doesn't matter if it's Social Security, capital gains, dividends, whatever, the first $32,000 in Nebraska, if you're joint, you don't have to file. [LB74]

AL MUMM: I don't know that because I pay...I pay income tax on my pension and it isn't $32,000 a year. [LB74]

SENATOR SCHUMACHER: You're paying income tax to Nebraska... [LB74]

AL MUMM: Absolutely. [LB74]

SENATOR SCHUMACHER: ...and you don't have $32,000? You're a joint return? [LB74]

AL MUMM: Yeah. My wife's income is strictly as part-time job and a Social Security. [LB74]

SENATOR SCHUMACHER: But any income in Nebraska at $32,000, you don't have to file if you have less than that. [LB74]

AL MUMM: Now, between Social Security and my pension, I make over $32,000. Between the two of them, I make more than that. [LB74]

SENATOR SCHUMACHER: Okay. All right. That's maybe where the difference is. [LB74]

AL MUMM: But at any rate, they withhold tax from my pension every month. [LB74]

SENATOR HADLEY: Thank you, Mr. Mumm. [LB74]

AL MUMM: Okay. [LB74]

SENATOR HADLEY: We appreciate and I appreciate all the testifiers coming in. It's a good discussion and I think it's all on our radar screen. In the land of good wishes,... [LB74]

AL MUMM: We appreciate the opportunity. [LB74]

SENATOR HADLEY: ...that's something that we will certainly look at. Thank you. With that, I'll close the hearings. And I would accept a motion to go into Executive Session. [LB74]