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TESTIMONY OF ROBYN KAPLAN-CHO, RETIREMENT SPECIALIST, THE CONNECTICUT EDUCATION ASSOCIATION (CEA) CONCERNING RAISED S.B. No. 28

BEFORE THE FINANCE COMMITTEE MARCH 13, 2014

Good morning Senator Fonfara, Representative Widlitz, and members of the Finance Committee. My name is Robyn Kaplan-Cho, and I am the Retirement Specialist for the CEA, representing over 41,000 active teachers and over 4,000 retired teachers who are members of the State Teachers' Retirement System.

I would like to express CEA's support for S.B. 28, which implements the Governor's budget. Specifically, I speak in support of Section 6(B) which would exempt 25% of a Connecticut retired teacher's state pension from income tax in 2014 and 50% in each taxable year from 2015 forward.

This proposal makes good sense from both a parity and economic standpoint. First, it extends favorable state income tax treatment that currently applies to social security benefits to our states' retired teachers' pension benefits. As you may know, Connecticut teachers do not participate in the social security system. If they did, like most Connecticut residents do, many would not pay full income tax on that income. So, in fairness, a tax exemption similarly should be applied to their teachers' pension. I have attached an OLR memo that examines the state income tax treatment of teacher pensions in other states. However, to be consistent, it is necessary to look at those 13 states whose teachers do not participate in social security. Of the 13 states whose teachers do not participate in social security, 10 have a state income tax. Four of those 10 states (Louisiana, Missouri, Massachusetts, and Illinois) exempt 100% of their state's teacher pension from their state income taxes. Four other states (Colorado, Kentucky, Maine, and Ohio) provide a partial exemption from their state's income taxes. So, 8 out of the 10 non-social security states with an income tax do provide preferential tax treatment to their retired teachers. Only two states do not – Connecticut and California. Thus, this proposal will align Connecticut with the vast majority of non-social security states' treatment of non-social security covered teacher pensions.

In addition, this proposal serves a public policy function in that it should help to bolster economic development by encouraging retired teachers to remain in this state due to its favorable tax treatment.

CEA respectfully requests that this Committee act favorably upon Section 6(B) of Senate Bill 28.

Thank you for your time and consideration.

OLR RESEARCH REPORT

November 23, 2010 2010-R-0475

STATE TAXATION OF TEACHERS' PENSIONS

By: Judith Lohman, Assistant Director

You asked which states tax public school teachers' pensions.

For the 2009 tax year, of the 41 states with personal income taxes, 36 tax some or all of teachers' pensions and five do not. The five states that do not tax any teacher pensions are Alabama, Hawaii, Illinois, Mississippi, and Pennsylvania.

The states that impose state income taxes on teacher pensions fall into three groups:

- Five states exempt 100% of their own state's teacher pensions from their taxes while taxing some or all income from out-of-state teacher pensions. These states are: Kansas, Louisiana, Massachusetts, Michigan and New York. Of these five, Massachusetts and Michigan exempt another state's pensions if the other state provides a reciprocal exemption.

- Eleven states have no special tax provisions for teacher pensions and, for income tax purposes, treat them the same as other forms of income. These states are: California, Connecticut, Idaho, Indiana, Minnesota, Nebraska, New Mexico, North Dakota, Rhode Island, Vermont, and Virginia.

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- The remaining 20 states either exempt a certain amount of teacher pension income from their tax or provide tax credits to reduce the tax. Table 1 lists these states and summarizes the exemption that applies to teacher pensions. The information applies to the 2009 tax year unless otherwise noted.

TABLE 1: STATE INCOME TAX EXEMPTIONS AND CREDITS FOR TEACHER PENSIONS

State	***Exemptions And Credits***
Arizona	$2,500
Arkansas	$6,000
Colorado	**Age 65+:** $24,000
Delaware	**Under Age 60:** $2,000 **Age 60+:** $12,500
Georgia	**Age 62+:** $35,000 (2008-2012) $100,000 (2013) $150,000 (2014) $200,000 (2015) 100% exempt (2016 and after)
Iowa	**Age 55+:** $6,000 single/ $12,000 joint
Kentucky	100% exemption for benefits earned before 1/1/98. Exemption prorated for benefits earned later, with a maximum exclusion of $41,110 for tax years 2006-2011.
Maine	$6,000 minus Social Security (SS)/Railroad Retirement (RR) benefits
Maryland (2008)	**Age 65+:** $24,000 per person minus SS/RR benefits
Missouri	Greater of $6,000 single/ $12,000 joint (reduced by amount total income exceeds certain limits) or 50% of benefits for 2009 (rising to 100% for 2012) minus amount of any Social Security exclusion. Income limits apply (see notes)
Montana	Up to $3,600 for taxpayers with adjusted gross income (AGI) under $30,000. These amounts will be adjusted annually for inflation starting in the 2010 tax year, when they will be $3,640 and $30,320, respectively
New Jersey	**Age 62+:** $15,000 single/$20,000 joint. Income limits apply (see notes).
North Carolina	$4,000 single/$8,000 joint
Ohio	Certain tax credits apply (see notes)
Oklahoma	Amount included in federal AGI up to a maximum of $10,000 per retiree for all benefits. Exemption limited to pensions received from the Oklahoma Teachers' Retirement System and other Oklahoma public retirement systems.
Oregon	**Age 62+:** Credit of up to 9% of taxable pension income. Income limits apply (see notes). The credit expires after the 2013 tax year.
South Carolina	**Under 65:** $3,000 **Age 65+:** $10,000 (see notes)
Utah	**Age 65+:** Retirement income credit of up to $450 per taxpayer (income limits apply) **Under 65 and born before 1/1/53:** Retirement income credit of up to $288 per taxpayer but no more than 6% of qualifying retirement income (income limits apply)
West Virginia	$2,000 of income received from the West Virginia State Teachers' Retirement System (see notes)

Sources: CCH-Wolters Kluwer *State Tax Guide,* supplemented by income tax forms and instructions for selected states.

Notes for Table 1:

Missouri: Exemption for Social Security benefits, Social Security disability benefits, and benefits received from a public retirement system for individuals age 62+ to be phased in as follows: for 2009, 50%; 2010, 65%; 2011, 80%; and 2012 and thereafter, 100%. Maximum deduction is available for AGI up to $85,000 single/ $100,000 joint. The exemption decreases dollar for dollar for AGI exceeding that amount. If a taxpayer receives both Social Security and public retirement benefits, the maximum deduction for the publicly funded retirement benefits is decreased by $1 for every dollar of SS benefits received if the benefits are not included in taxpayer's Missouri AGI. The maximum deduction for the publicly funded retirement benefits is limited to the maximum SS benefits available for the tax year less any SS benefits not taxable to Missouri.

New Jersey: Taxpayers over age 62 are entitled to an additional income exclusion to allow them to reach the amount of the pension exemption. The sum of the pension exemption and the additional exemption may exceed the pension exemption if the recipient is ineligible for SS retirement benefits. Exclusion eliminated for AGI over $50,000 single/$100,000 joint.

Ohio: For tax years before 2014, a retirement income tax credit of from $25 to $200 is allowed, depending on amount of retirement income. A senior citizen tax credit of $25 per taxpayer is allowed to filers age 65+. A one-time tax credit is available for lump-sum distributions to people over age 65. The credit is $50 multiplied by remaining life expectancy.

Oregon: A tax credit of up to 9% of taxable pension income is available to recipients of pension income, including most private pension income, whose household income is less than $22,500 for single and $45,000 for joint filers and who receive less than $7,500/$15,000 in SS or RR benefits. The credit is the lesser of tax liability or 9% of taxable pension income.

South Carolina: Each taxpayer over age 65 is entitled to an income exemption of up to $15,000 ($30,000, married filing jointly) minus the retirement income exemption claimed.

West Virginia: Each taxpayer over 65 can also claim an $8,000 exemption, from which the pension exclusions noted in the table must be deducted.

JL:ts