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Revenue Committee
January 28, 2015

[LB63 LB165 LB267]

The Committee on Revenue met at 1:30 p.m. on Wednesday, January 28, 2015, in Room 1524 of the State Capitol, Lincoln, Nebraska, for the purpose of conducting a public hearing on LB63, LB165, and LB267. Senators present: Mike Gloor, Chairperson; Paul Schumacher, Vice Chairperson; Lydia Brasch; Al Davis; Burke Harr; Jim Scheer; Jim Smith; and Kate Sullivan. Senators absent: None.

SENATOR GLOOR: Good afternoon. We're going to start the hearing. I'm Senator Mike Gloor. I am the senator from District 35, which is Grand Island, and I'm the Chair of the committee. Before we get started, I'd like to cover a couple of general rules for our hearings. The first is if you have a cell phone, please, we welcome you to the electronic age but please make sure that it's either turned off or on silent mode. The agenda for today is posted in the back and we will adhere to the agenda as previously posted. The order of presentation today is we will have the opening by the senator whose bill it is. We will hear from proponents. We'll then hear from opponents. We'll hear from those in a neutral capacity. And then we'll have the closing by the senator who presents. If you plan to testify today, please fill out one of the green testifier's forms that's in the back and give that to the clerk before you provide your testimony. When you start your testimony we need you to please introduce yourself and spell your name. We're not as fixated on the spelling of your name as you might think, but there will be people who are taking this down from a dictation standpoint. We need to make sure that they get it right for purposes of the formal record. I ask that you keep your presentation to five minutes. We have a light system which is green, that's all systems go; and then when you have...see a yellow light, that means you have a minute to go; and when it turns red I try and not cut you off abruptly but if you don't wrap up your comments I'll nudge you in that direction. So please keep that in mind during your testimony. If you have copies that you would like to hand out to the committee, we need ten of them so that everybody has a copy. And you can give those to the pages and the pages will take care of distributing them. If you suddenly realize that you don't have ten copies, let the pages know now so that they can make copies for you so we can be sure and have those for everybody. A comment that I always make, not just for your benefit but as a reminder to the senators, since this is in fact being broadcast, we would ask you to speak into the microphone that also so those folks who are doing the dictation on this can clearly hear and make sure they get down every word and hear what's going on. To my immediate right is Committee Counsel Mary Jane Egr Edson; and to my far left is Krissa Delka. She is the committee clerk. I will ask the members to introduce themselves to you. Senator Brasch.

SENATOR BRASCH: I am Senator Lydia Brasch. I represent the 16th Legislative District, Cuming County, Burt County, and Washington County.

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SENATOR HARR: And I am Burke Harr and I represent Legislative District 8, midtown Omaha.

SENATOR SCHUMACHER: Senator Paul Schumacher from District 22, that's Platte and parts of Colfax and Nance County.

SENATOR SULLIVAN: Kate Sullivan of Cedar Rapids representing District 41, a nine-county area in central Nebraska.

SENATOR SMITH: My timing is perfect. Jim Smith from Sarpy County, District 14.

SENATOR SCHEER: And I am Jim Scheer from District 19, Madison County and just a little hunk of Stanton County.

SENATOR DAVIS: Hi. Al Davis, District 43, north-central and western Nebraska.

SENATOR GLOOR: Our pages today are Colin Loberg from Wayne, that's Wayne, Nebraska; and Donnie Earl from right here in Lincoln, Nebraska. And again, they're here to help us and to help you, if you need something. And with that, we will start. Our first bill today is LB63. Senator Schumacher.

SENATOR SCHUMACHER: Thank you, Chairman Gloor, members of the Revenue Committee. I am Paul Schumacher, representing District 22 in the Legislature, and bring to you today LB63. LB63 deals with the whole range of issues with retirement and taxation of retirement income and how we should handle that. For the members of the committee that were with the committee for the last couple years, were on the Tax Modernization Committee, there were things that we heard about quite often. And we also now hear about the shortage of workers in Nebraska, the need for skilled professionals in Nebraska, and how does that all mix together. Last year we tried dealing some with the issue of taxation of Social Security income, taxation of retirement income, taxation of military retirement income. And a lot of it, you look at how the income tax is set up, looks at which you pour into the tax base first. If you pour into the tax base first Social Security income that comes from Social Security, rarely does anybody have to pay tax on it, particularly if they're a couple because there just isn't that much in Social Security income that your exemptions and deductions don't cover. Then you pour into there your retirement benefit income and that's subject to tax. If you look at it the other way and you pour your retirement income first into the pot and apply your deductions and exemptions against that and then pour your Social Security income on top of that, it looks as though you're taxing Social Security income. So it's kind of how you look at it, first in, what's first out, and what do you tax. And we tried to resolve that with some modifications in the taxes for retirement income. Keep in mind when we talk

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about giving somebody a tax break, whatever "breakeths" we give away we have to collect from someplace else, unless we magically can find revenue someplace else. And so whatever break we give to anybody, we have to raise somebody else's taxes on it. On the retirement income side we have some fairness issues. Generally, the theory has been in large part on those people who have been fortunate enough to have some type of tax deductible plans, the employer or they themselves put into a retirement fund money on which they did not pay taxes. And the idea was that that money would grow at a healthy rate of interest and then they would come off the payroll, so to speak, and would pay taxes on that money in retirement. And therefore, it was tax coming out of the pool instead of tax going into the pool. Well, that didn't work out quite as well as planned because there was very little interest on the money and some of those retirement funds didn't pay what they should and that puts a squeeze on people and so the argument--Don't tax retirement income. And we know the consequences of that is you got to tax somebody else. So in looking at trying to put all those things together, it occurred to me that one of our objectives as a state is to keep employees on the job and to postpone retirement so that people have an ability to build up their retirement funds, not draw down on those retirement funds quite as soon, contribute their skills and their connections to the economy instead of coming off-line, because when they come off-line there's no earned income to tax. And the idea behind LB63 is if you stay on beyond 65...and maybe 65 isn't the right year. Maybe it should be 67. Maybe it should be 63. But 65 has always kind of been a benchmark. So you, for purposes of that, if you stay on beyond 65, that part of your income that is subject to Social Security tax, which is basically the first hundred-and-some thousand, would not be subject to state income tax. So if you're sitting there, as many people in the age category of nearing 65 are sitting, and trying to figure out when should I come off-line and start collecting my pension or collecting my Social Security, this hopefully would be a bit of incentive to stay on-line for an extra year or two or three. And since we're not really losing any money anyway if you would come off-line, the state is not...would not tax you on the amount of your income over...when you're over 65, up to where the Social Security tax stopped. This has a lot of social equity to it. It has the element of our...keeping our work force up to speed. It has the element of not putting people as quickly in a position where they may need to come on to the state rolls for social net purposes. And quite frankly, when you look at somebody who might be 70 years old working as a greeter in a Walmart store, why are we taxing them? At some point, isn't enough enough? And this simply is a very simple proposal. It says let's try to deal with some of these issues by letting the people, who are over 65 and still working and still contributing, keep their money and invest it in themselves and hopefully society return...get a good return on that investment. Simple idea, one of those ideas to put in the pot as we deal with retirement issues, as we deal with an aging population, as we deal with burdens shifting to younger people or other people, and it's another one of the things for the toolbox should we get to a point where we decide that we can afford some tax cuts for somebody somewhere along the line, and speak for the people today who are out there working and who are still putting their shoulder to the wheel and who are 65 years of age or older. Be happy to answer any questions. [LB63]

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SENATOR GLOOR: Thank you, Senator Schumacher. Let me ask you a question that goes back to your involvement in the Tax Modernization Committee. I'm going to assume some of this, as you kind of referenced, was talked about with all the different issues put in front of you. And what I'm guessing ultimately came out of that discussion had to do with the decisions that were made on the homestead exemption and indexing and property tax relief. I mean do you recall how bills of this sort fit into that overall deduction or was that, I mean, was that the response to the sort of pressures? [LB63]

SENATOR SCHUMACHER: That was a response within what resources we had to deal with. Indexing actually probably pushes the limits on what resources we had to deal with because it's, I think, if I remember right, it's \$10 million a year and the next year is \$20 million, the next year is \$30 million. So ten years from now, that's a \$100-million bite. That when you sit down and say we have a 5 percent increase in revenue year off a year, you got to back out of the calculation, because when we say a 5 percent increase in revenue year after year, it was with that hidden tax increase buried in the fact that we weren't indexing it on inflation and that's contributed some to that increase. But, yeah, we tried last year to deal with it as best we could with the property tax credit and yet maintaining the reserve, which a lot of us I think felt needed to be maintained, and without too dynamic of or too great a shift of tax burden to anybody. [LB63]

SENATOR GLOOR: Well, the fiscal note would show, to no one's surprise, a pretty big bite. But run through me again...run through for me again, if you would, the offset you see coming as a result of doing this that relates to keeping workers on the work force. [LB63]

SENATOR SCHUMACHER: Well, I mean it's no surprise that we've got a shortage of workers and we've got a shortage of people who know what they're doing and who are good at it because they've lived their lives doing it. And I think that the upside is we keep them working and we give them continuing incentives to stay working. They drop off; that tax revenue is gone anyway. And I think that also, to the extent we encourage people to drop off by giving tax breaks, either to retirement income that is unearned or not incentivizing them staying on working, that we are increasing the risk down the road that they're going to become dependent on the system. And that the fiscal note does not take into consideration. By keeping the people working now and not drawing down on their resources, those resources are available for future use, and hopefully will keep them off of the state social nets, safety nets, for a while longer in the future. We're dealing with a pretty dangerous situation here with a lot of people coming off-line and not so many people to replace them and what kind of tax adjustments we might be facing down the road with increasing life expectancies, hopefully happening a little bit--and we're all a little concerned about that, aren't we (laughter)--and no money, no savings. So let's keep these people working. There's no need for...to...if they're entitled to retire, to pull more money out of them. Let them save a little bit, give them incentive to work a little bit longer. [LB63]

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SENATOR GLOOR: Did you ever think about means testing this? I mean if--I hate to pick on him but everybody does so I'm not too guilty--if Warren Buffett decides, you know, if this goes through, does Warren Buffett get his benefit as a result of this too? [LB63]

SENATOR SCHUMACHER: I think there's a limitation that it's what's subject to Social Security tax,... [LB63]

SENATOR GLOOR: Oh, sure. [LB63]

SENATOR SCHUMACHER: ...which is like the first hundred-and-some thousand, so it would be about the first 30 seconds of his income. [LB63]

SENATOR GLOOR: Yeah. That's right. Yep. He won't starve. [LB63]

SENATOR SCHUMACHER: Well, it... [LB63]

SENATOR GLOOR: Senator Harr. [LB63]

SENATOR HARR: Thank you, Mr. Chairman. Senator Schumacher, thank you for bringing this bill. Thought "Schumacher week" was over. [LB63]

SENATOR SCHUMACHER: Yeah, I got a few more, Senator. [LB63]

SENATOR HARR: So I have a couple questions and Senator Gloor, Chairman Gloor hit on it a little bit. As we age, I'm starting to experiment...or experience a little bit, the body breaks down. So the type of job that you could work beyond 65, as a general practice, would probably be more those jobs similar to what you do as an attorney, rather than, say, working construction. So would the majority of that money (inaudible) money go to those who probably make a larger sum than those who make a smaller sum? [LB63]

SENATOR SCHUMACHER: If you no longer can do your job, then probably won't be able to do your job unless it's a lot, you know, easier job to do. And so I think what you may be looking at, at the folks who are highly skilled, who are not relying completely on manual labor, on the kind of things that you have to have a good strong body to do and we probably want to keep in the system because they've got the connection and the know-how to keep those businesses running. And I would look at probably your folks that are the maximum benefit on this would probably be the folks between \$30,000 and \$100,000 a year. [LB63]

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SENATOR HARR: Okay. Which also leads to my second question, your answer does. Right now we have a very low unemployment rate, which is great, and hopefully we can always count on that but I don't think we can. Is there a concern, do you have a concern that we keep all these people on-line, as you call it, working and our young people who are coming out burdened, saddled, whatever term you want to use, with large debt, those jobs aren't available to them because they're being filled? The filtration system: there aren't the new jobs to be created because the old guy, who's making a whole heck of a lot more money than the new guy, is staying in his job because he doesn't have to pay taxes. [LB63]

SENATOR SCHUMACHER: I think that this bill will not have that dramatic effect that you will see people stay on a whole lot longer. I think you're probably looking at, first of all, most people with a retirement account, they got to start spending it at 70. [LB63]

SENATOR HARR: Seventy and a half. [LB63]

SENATOR SCHUMACHER: Seventy and a half, you're correct. And so what you're doing is you may move up, by year two or three, people who are coming up against that limit. I don't think you're going to see a large usurpation of jobs. And I think the skill that...of keeping somebody on, who's capable of working and making money and mentoring the new people, probably will pay off fairly well. And, you know, it would be nice if people would be able to work till 90, but as a practical matter, that's not it. And I don't think the younger people should be terribly concerned. [LB63]

SENATOR HARR: Well, we can't all be Mrs. B. [LB63]

SENATOR SCHUMACHER: That's right. [LB63]

SENATOR HARR: All right. Thank you. [LB63]

SENATOR GLOOR: Senator Sullivan. [LB63]

SENATOR SULLIVAN: Thank you, Senator Gloor. And thank you, Senator Schumacher. And carrying on that conversation, what about the age? You mentioned perhaps it should be lower. Should it be, or should it be higher? [LB63]

SENATOR SCHUMACHER: You know, when I was writing this, 65 was fairly arbitrary because that's the Medicaid (sic) age, okay? [LB63]

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SENATOR SULLIVAN: Uh-huh. [LB63]

SENATOR SCHUMACHER: Sixty-seven is kind of the new Social Security age. Maybe it should be 67. That would probably have a big impact on the fiscal note because people are staying on till 67 pretty regularly. And so that's one adjustment or factor that can be fiddled with in order to make something work. Again, this is one of those things where it is a concept notion of if we've got money to spend on tax relief do we just throw it out there where everybody benefits by \$50, \$100 a year and call it good? Or do we try to target that to specific demographic that might be able to produce a greater bang for the buck and...? [LB63]

SENATOR SULLIVAN: Well, is this...do you know if this has been done in other states or is this just "Professor" Schumacher's brainchild? [LB63]

SENATOR SCHUMACHER: This is probably one of those. [LB63]

SENATOR SULLIVAN: Okay. (Laughter) [LB63]

SENATOR GLOOR: Senator Davis. [LB63]

SENATOR DAVIS: So it's an interesting proposal and I will tell you kind of my proposal which is somewhat like this. I didn't put it in the form of a bill. But I was on the Aging Task Force this summer and the one thing we learned was most people never have enough resources when they retire and, therefore, they are in a dire pickle in a very short time and oftentimes end up on dual eligibility for some years. A lot of people retire at 62, take their Social Security, which is a very poor business decision really because it, you know, it's quite a significant return if you wait. So my idea was you exempt that. If people are still working and not taking their Social Security, you give them an exemption to encourage them to continue working. And I don't the fiscal note would be as big. But when I look at this, you could have people, I mean in agriculture at least, you're going to have people that are 90, still working. So, you know, thinking that it might be a short window may not be as applicable as what you might think it would be. [LB63]

SENATOR SCHUMACHER: There may be some agricultural things that...but... [LB63]

SENATOR DAVIS: And they're not, they're not, I mean for example Curt Friesen's dad is still out plowing fields at 92. There aren't going to be everybody doing that, but a lot of farm entities are structured in some way where some people are drawing a salary out of those. [LB63]

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SENATOR SCHUMACHER: We'll get them on the property tax side. (Laughter) And...but there is roughly a little over a \$100,000 limit here. I think you'll have some people who will remain working and it may be that once we...if this were implemented, we'd have some way that we'd review the...and make adjustments if there were any abuses into the system. [LB63]

SENATOR DAVIS: Who do you think is going to benefit most from this, the average guy or the wealthy? [LB63]

SENATOR SCHUMACHER: I'd say the people making between \$30,000 and \$100,000 a year. Over \$100,000, they're not going to benefit that much. And it's going to be the person who just isn't ready to quit or is very, very nervous about not having enough money saved up. And why we should tax them, draw down their income by, you know, 6-7 percent when they're trying to get that last bit socked away, and then turn around and maybe have to be responsible for picking up the tab once they hit \$4,000 a month in nursing home expenses. [LB63]

SENATOR DAVIS: So how would you feel about making this available only to people who had not taken Social Security already... [LB63]

SENATOR SCHUMACHER: It's a possibility. [LB63]

SENATOR DAVIS: ...to let them help build up that fund? [LB63]

SENATOR SCHUMACHER: That's a possibility. Like I said, the idea of quite a few of the bills I introduced this year is to have tools and ideas so when we get down to the number crunching and we say, you know, we do have a little money and we don't want it to go to education (laughter), to go to tax relief. [LB63]

SENATOR GLOOR: Or healthcare. [LB63]

SENATOR SCHUMACHER: You know, all the people in line who would like to have a bite of it, and so we have something on a bill that's had a hearing on and been on the smorgasbord of tax benefits to work with. [LB63]

SENATOR GLOOR: Other questions? Seeing none, thank you. [LB63]

SENATOR SCHUMACHER: Thank you. [LB63]

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SENATOR GLOOR: We'll move to proponents for this bill. Anyone who would like to speak in opposition to this bill? Anyone who would like to speak in a neutral capacity on this bill? Seeing none, Senator Schumacher, you're recognized to close on this bill. [LB63]

SENATOR SCHUMACHER: Looks to me to be a consent calendar item. (Laughter) Just another idea to have out there so when we get down to slicing and dicing it, if we get that far this year, we can consider. But all the people who were in support of the bill, they're working to pay their expenses and get ready for retirement. Thank you. [LB63]

SENATOR GLOOR: Thank you, Senator Schumacher. And that will end the hearing on LB63. We'll move on to LB165. Senator Lindstrom, welcome to the Revenue Committee. [LB63]

SENATOR LINDSTROM: Thank you, Chairman. Thank you, Senator Gloor and members of the Revenue Committee. My name is Senator Brett Lindstrom, B-r-e-t-t L-i-n-d-s-t-r-o-m. I want to start by thanking the committee for the hard work they've put in the last few years to update our taxation system in Nebraska and for taking the hard task of reducing our state tax on Social Security income with LB987 from last session. I'm here today to discuss LB165, which would phase out our tax on Social Security income completely over the next five years. Three hundred and twenty thousand individuals in Nebraska rely on some form of Social Security tax...I'm sorry, Social Security income. This includes retirees as well as disabled and some of the most vulnerable Nebraskans in our state. The issue of Social Security and its taxation is a huge one. According to Pew Research, Social Security touches more than just about any other federal program. As of the end of 2012, some 57 million Americans were receiving retirement, disability, or survivor's benefits from the system. We are only one of a few states that tax Social Security income. This hurts our vulnerable seniors, especially those on fixed income, and it seems logical to move away from taxing Social Security, the taxing of Social Security entirely. This impacts people on both sides of the wealth spectrum. People with the most disposable income choose to retire and spend their money in another state, partly because of the high taxation on seniors. Also, people on a fixed income have less money to spend on basic necessities because of the impact of the tax. If we eliminate the tax on...Social Security tax, we'll have more people who decide to stay in Nebraska to retire as well as putting more money in the pockets of struggling retirees. Due to our high tax rates in Nebraska, we have lost a total of 60,000-plus Nebraskans from 1985 through 2011, with 11,800 Nebraskans going to more tax-friendly neighbors, such as Colorado and Missouri. From 1992 to 2011, we lost \$2.58 billion in annual AGI due to Nebraskans moving to other states. Again, Colorado and Missouri were listed among the top states to gain our lost income in the tune of \$391 million. There are only 12 states in the Union that tax Social Security income at the state level. And while we have updated our tax brackets and now exempt from Social Security tax those with an AGI of up to \$43,000 as a single filer and \$58,000 for married, filing jointly, we still have the distinction of being one of only four states that offer no greater tax break for Social Security income than the federal

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government, taxing at 85 percent of Social Security income. Here is what some of our neighbors have done to lessen the tax burden for their seniors and vulnerable population. South Dakota, Wyoming, and Iowa do not tax Social Security income. Missouri exempts up to \$85,000 for AGI for single taxpayers, and married, \$100,000. Kansas exempts \$75,000 of AGI. Colorado allows up to \$20,000 of Social Security benefits to be excluded for those under age 65, and up to \$24,000 for Social Security benefits to exclude for those 65 and older. Just last week a "Retire in Minnesota Act" was introduced. The initiative is working to remove the tax on Social Security income. Much like Nebraska, if you retired in Minnesota it isn't for the oceans and mountains, although today is a pretty nice day in Nebraska. The Minnesota AARP is embracing the idea because they know it makes financial sense to have seniors stay in their state and not move to a more tax-advantageous state. The "Retire in Minnesota Act" was modeled after our neighbors in Iowa, which received broad-based bipartisan support. Minnesotans know that for the most part...know that most of the savings will go right back in the local economy, versus being shipped out of the state. So I would urge the committee to look at this. I know that in my capacity, in my private life, as a financial advisor, I deal with retirees and typically retirees think of money in a couple different buckets. They think about it in income. They think about it as one bucket. Another bucket is savings. And for anybody that follows some of the financials out there and the economy, you're seeing the one-year Treasury rate at 25 basis points, or .25 percent. The ten-year Treasury is at 2.12 percent as of today. So anybody that's looking for safety in their retirement and safety in investments, they have to go out a significant length of time in the duration of fixed income, which if interest rates rise they're going to get hurt, not to mention the investments that they're putting their money in is less than the inflation rate that ranges anywhere between 2.5 and 3 percent on any given year. So over time, this hurts our retirees. And of course, we have a record number of individuals reaching that 65 year age range with the baby boomers. And so I know that one of the issues that...or one of the arguments against is where does that money go? I know the fiscal note is large. I think there's a few problems with that fiscal note. It doesn't take into account the money will be spent here and taxed in another form potentially, well, in sales tax, in entertainment, potentially keno, something like that. But I think it makes good fiscal sense to do so for long-term longevity of our state and to protect the most vulnerable people that are accessing that income. So with that, I'll take any questions that you have. [LB165]

SENATOR GLOOR: Senator Lindstrom, when you were preparing this, I'm sure you had some sense of the financial impact it was going to have on the state's General Fund. [LB165]

SENATOR LINDSTROM: Uh-huh. [LB165]

SENATOR GLOOR: What was your thought about how we would be able to do this and still maintain some of the same services that that population will also be interested in having us maintain:... [LB165]

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SENATOR LINDSTROM: Sure. [LB165]

SENATOR GLOOR: ...roads and long-term care facilities, etcetera? [LB165]

SENATOR LINDSTROM: Sure. And part of the reason of the phasing out process is to ease into this versus I've seen other bills in the past were just then to cut it outright. I think that will allow us to deal with the budget in a prudent manner. Again, this takes into account that the money will just disappear, in a sense. I feel that giving a couple hundred dollars back to an individual--again, this would fall in the income bucket of what people use--will be taxed at a different...in a different venue, potentially sales tax. So you know, it's not money that I see necessarily disappearing. Long-term, if we aren't providing this, my fear is that people will move out of the state, potentially losing other avenues of taxation, whether it's property tax or whatever it might be. So I think it's a problem that needs to be addressed now, particularly with the economy the way it is right now as far as, I mentioned before, interest rates and just an individual's monthly income. So I am aware of the problem that comes about with this as far as what the fiscal note looks like. I don't think it takes into account some of the other things in play like I mentioned. [LB165]

SENATOR GLOOR: Okay. The numbers you had of people who were leaving the state... [LB165]

SENATOR LINDSTROM: Uh-huh. [LB165]

SENATOR GLOOR: ...for other states, what was the source of that, those numbers? [LB165]

SENATOR LINDSTROM: I do have that information, I believe. [LB165]

SENATOR GLOOR: If you can't find it, just give it to me afterwards. [LB165]

SENATOR LINDSTROM: And I can get back to you on that. [LB165]

SENATOR GLOOR: Yeah, that's fine. [LB165]

SENATOR LINDSTROM: Yeah, I do have a source for that, yes. [LB165]

SENATOR GLOOR: Okay. Thank you. Questions? Senator Schumacher. [LB165]

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SENATOR SCHUMACHER: Thank you, Senator Gloor. And thank you for introducing this bill and adding to our discussion as to how we can deal with taxes. What is the amount of Social Security received by...or max amount receivable by a couple? [LB165]

SENATOR LINDSTROM: As right now... [LB165]

SENATOR SCHUMACHER: Right. [LB165]

SENATOR LINDSTROM: ...how we tax it? Fifty-eight thousand, is that what you mean? [LB165]

SENATOR SCHUMACHER: No, no. If you put in for Social Security what, at, let's just say, age 67, what would a couple get, the maximum amount they could get? [LB165]

SENATOR LINDSTROM: I'll defer to the individuals behind me. (Inaudible) I have about 31 years before I touch that, so I'm not... [LB165]

SENATOR SCHUMACHER: Okay. [LB165]

SENATOR LINDSTROM: ...sure on the exact number on that. [LB165]

SENATOR SCHUMACHER: If that figure was, for example, after it all added up to be \$30,000,... [LB165]

SENATOR LINDSTROM: Uh-huh. [LB165]

SENATOR SCHUMACHER: ...okay? Let's just use that rough number. And if the deductions and exemptions, for purposes of Nebraska and federal taxes, for a couple were also about \$30,000, then they would be paying no tax on their Social Security under the existing system. Right? [LB165]

SENATOR LINDSTROM: If that math is correct, correct, yes. [LB165]

SENATOR SCHUMACHER: Okay. So if that's true, we effectively aren't taxing Social Security now. So then the person has some more income coming from a pension or something like that. [LB165]

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SENATOR LINDSTROM: Uh-huh. [LB165]

SENATOR SCHUMACHER: And that we begin to tax because it's over the \$30,000-ish deduction or exemptions that you're entitled to. To your knowledge, that money that comes from a pension fund, whether it was a 401(k) or their own self-employed pension, those kind of things, was that taxed when it went into the fund? [LB165]

SENATOR LINDSTROM: When it went into the fund? If it's not a Roth, if it's just a 401(k), it gets taxed when it comes out. [LB165]

SENATOR SCHUMACHER: It was taxed when it... [LB165]

SENATOR LINDSTROM: When it came in, no; when it comes out, yes. [LB165]

SENATOR SCHUMACHER: Okay. And now if we raise this exemption up to, in effect, put that money into the pot first, because we're not going to tax the Social Security part of it, it's not taxed coming out then either, is it? [LB165]

SENATOR LINDSTROM: If you're correct in that, then right. [LB165]

SENATOR SCHUMACHER: If my numbers are kind of... [LB165]

SENATOR LINDSTROM: Right. [LB165]

SENATOR SCHUMACHER: ...close enough for government work. So we have got a situation where we have a large amount of money that was not taxed going in and not taxed coming out. [LB165]

SENATOR LINDSTROM: Well, with regards to the Social Security tax, you know, FICA on the employer's side is taxed at 6.2 percent. So if you're talking about a dollar coming in, it's taxed. [LB165]

SENATOR SCHUMACHER: I'm talking about retirement money because if you follow where I was at,... [LB165]

SENATOR LINDSTROM: Uh-huh. [LB165]

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SENATOR SCHUMACHER: ...\$30,000 Social Security benefits, \$30,000 exemption, no tax on Social Security. So what we're talking about is whether we impose a tax on the amount in excess of the \$30,000 Social Security. And if we say we're going to forget that there was Social Security in this equation, then we're allowing retirement income not to be taxed when it went into the bucket and not to be taxed when it comes out of the bucket, and we've got a huge amount of income that nobody has ever paid tax on. [LB165]

SENATOR LINDSTROM: Are you talking about on the state side of things? [LB165]

SENATOR SCHUMACHER: Well, yeah, and the feds will tax it. [LB165]

SENATOR LINDSTROM: Right. [LB165]

SENATOR SCHUMACHER: Right. But on the state side, we have no tax on that retirement income. [LB165]

SENATOR LINDSTROM: Can I ask you a question with regards to the \$30,000 number? If you're saying with exemptions, we're not paying tax on it, then why tax it at all if we're not even collecting on that? [LB165]

SENATOR SCHUMACHER: Well, we've taken care of that. We made that adjustment by allowing for the exemptions, allowing for the deduction...standard deduction, whatever deductions they have. And I think beyond 65 you get two times exemptions. And so we're not taxing Social Security. If all you had in your life was \$32...your Social Security income, you wouldn't even have to file a tax return because your income, chances are, wouldn't be above \$30,000 and we allow \$30,000 worth of exemptions. So you're never going to have to file a return. So what we're talking about here really is the taxing of that pension fund, isn't it? [LB165]

SENATOR LINDSTROM: Well, again, if you're saying that the \$30,000, why does it exist in the first place, I guess is my question. If we're not taxing it at all, why have... [LB165]

SENATOR SCHUMACHER: And it doesn't exist. There's no tax on the first \$30,000. [LB165]

SENATOR LINDSTROM: Why is it in statute? [LB165]

SENATOR SCHUMACHER: The tax on? [LB165]

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SENATOR LINDSTROM: Social Security income. [LB165]

SENATOR SCHUMACHER: Because of the practical matter, the statute is aimed at taxing the retirement income for which no tax was paid when it went into the fund. And that was a deal made with society, wasn't it, that, hey, I'll pay for it when it comes out, just don't tax me when it goes in because I'm going to make...I've got these advisors that will get me 15 percent annual return on investment. And that never happened. [LB165]

SENATOR LINDSTROM: No, that's hard to do. (Laugh) [LB165]

SENATOR SCHUMACHER: Okay. The...and then the flip side of it, if there are people that leave the state because of retirement income,... [LB165]

SENATOR LINDSTROM: Uh-huh. [LB165]

SENATOR SCHUMACHER: ...can't we make the...if we shift that burden to the younger people with families, by having to jack up their property, sales, or income taxes, won't they look to say, gee, Nebraska is not desirable to us because we have to carry the burden for this exemptions and nontaxation of retirement income? [LB165]

SENATOR LINDSTROM: No, Senator, I tend to fall on the side of not necessarily shifting the tax but maybe looking at ways to streamline spending, so. [LB165]

SENATOR SCHUMACHER: Right. And we all are I think real interested in finding out where those places are. [LB165]

SENATOR LINDSTROM: I'm sure it can be found. [LB165]

SENATOR SCHUMACHER: Thank you, Senator. [LB165]

SENATOR LINDSTROM: Thank you. [LB165]

SENATOR GLOOR: Other questions? Seeing none, thank you, Senator Lindstrom. [LB165]

SENATOR LINDSTROM: Thank you. [LB165]

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SENATOR GLOOR: I'm guessing you're staying to close. [LB165]

SENATOR LINDSTROM: Yeah, I'll stick around. [LB165]

SENATOR GLOOR: Okay. We'll now move to proponents of this bill. [LB165]

JAMES CAVANAUGH: Chairman Gloor, members of the Revenue Committee, my name is James Cavanaugh. I'm an attorney and I'm representing our law firm, Cavanaugh Law Firm. I'm also a sustaining member of the National Organization of Social Security Claimants' Representatives, which is a national legal organization that dedicates itself to specializing and representing Social Security claimants. I appear here today in favor of LB165. We commend Senator Lindstrom for introducing this measure. This is I think the 27th year that I have appeared before this legislative committee. Most of those years I appeared in favor of measures similar to LB165. The idea was as sound 27 years ago as it is today and, as you've heard from Senator Lindstrom, is actually adopted in an overwhelming majority of states. Social Security, as you know, is one of the most successful federal programs ever adopted. Prior to the adoption of Social Security retirement benefits, 75 percent of Americans 65 years and older worked till they died. That percentage has come down significantly in the almost 80 years that the Social Security Act has been on the books, and it's primarily due to the benefits received by Social Security recipients. Although it does not provide normally enough for an individual to survive on alone, it does provide the basis of almost every American's retirement plans. In Nebraska, for instance, there are over 300,000 Social Security recipients who receive in aggregate over \$4.3 billion a year. Now while that may sound like a big number, if you do that math, that's \$14,333 per recipient per year. And you can't live on that as an individual in Nebraska today. The provisions of LB165 build on some action that you took last year, exempting a portion of Social Security benefits from state income tax. We commend you. It was a laudable first step. And what we would recommend is that now we take the next step towards exempting Social Security benefits in toto from state income taxation. The result of this, if you were to take this action, would be an average benefit to a Nebraska Social Security recipient of \$365 a year. Obviously, this isn't a huge amount, but these people, many of them living primarily on Social Security, need and spend virtually every dollar they receive every month. I've represented Social Security recipients for 30 years. I can assure you they're not buying municipal bonds or Berkshire Hathaway stock with their Social Security benefits. They're buying food or paying for lodging or medical assistance, transportation, basic needs, and virtually all of them spend 100 percent of their benefit every month and the overwhelming amount of that is spent in the locations in which they live. Over the period that I've represented people in the Unicameral as a lobbyist, I've had the opportunity when testifying before this and other committees to have clients who have the resources commission economic impact studies that would show the economic impact of a particular proposal. Social Security recipients aren't quite as well-heeled as many of the clients that I've been fortunate enough to represent, and so they do not have the resources to underwrite

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such a study. But I can assure you that the economic impact study, if it could be made in this, would show the multiplier effect of these Social Security payments is substantial in the local communities. So if you look at the fiscal note for LB165, you see what appears to be a pretty drastic hit for the state of Nebraska in terms of revenues that would be lost under LB165 when in fact this isn't a complete picture. If you take the, for instance, out year of 2019-2020, where the impact is estimated to be \$109,305,000, you need to understand that that amount will be spent, most of it, in the localities where these 300,000-plus Social Security recipients reside. And in the spending of that amount, not only will jobs be created and local businesses sustained but significant local revenues in the form of sales tax will be generated. I've testified on these proposals many times over the last 27 years and I've never ever seen that fact of life represented in a fiscal note, but it's important that you grasp that that is going to occur; absolutely occurred in the other states where this measure has been adopted. We would hope that we would be able to make some more progress this year. This is a long-term process, we understand that, and we're in it for the long term. But the equities of allowing people, who are on average going to get \$14,000, to get \$364 more per year I would hope would appeal to this committee. And we would urge you to act favorably on this bill. I'd be happy to answer any questions you might have. Thank you. [LB165]

SENATOR GLOOR: Mr. Cavanaugh, as relates to the issue around economic stimulus, I wouldn't argue with you that my readings also showed that that increased disposable income goes for things like food and healthcare, but those are tax exempt. I mean we don't tax, and particularly in healthcare, a lot of money. In fact, I think most Americans, not just Nebraskans, of any age spend more on healthcare on a monthly basis than they do pay taxes on a monthly basis, and obviously that grows as you get older. So there is part of my tempering the economic stimulus of this. But a question I would ask is over the years that you've monitored this, knowing that you started here at age 18 and have carried your 27 years forward since that point in time, has anybody talked about this being, in fact, a proposal that kicks in at age 80 or 78 or 84? I mean there's certainly been a lot of discussion that Social Security, even though it's crept up some, has a long way to go to creep up with what its originators probably expected Social Security would be available to, given life expectancies. And it seems to me all of these things become a lot easier arguments to make, if we're talking about people who really can't enter the work force, really are played out in terms of their ability to be a work force. Just wondering if you've seen those bills in that 27 years. [LB165]

JAMES CAVANAUGH: I haven't seen that specific scenario reflected in a bill. But you know, discussions have over time revolved around that, where you could incrementally move the age of application of the exemption or you could incrementally, as you did last year, move the amount of income exempted. Those both are steps in the right direction. The problem with the first one, of pegging it to an age beyond the retirement age, is a substantial number of Social Security recipients are disabled. They don't meet retirement age. And these are some of the people on the

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most limited incomes. You know, you can be retired and still have outside income and, you know, still be operating in the economy, but if you meet the disability requirements, you know, and you're 55 years old, you're precluded from participating in the economy in that fashion. And a lot of times if you're disabled for a significant period of time, you're forced to divest yourself of assets that you may have accumulated. So I'd be sensitive to that, but certainly if you wanted to, you know, again, do an incremental step towards the ultimate right decision, that would be preferable to the status quo, yes. [LB165]

SENATOR GLOOR: Okay. Senator Scheer. [LB165]

SENATOR SCHEER: Thank you, Senator Gloor. You made an interesting comment that I hadn't thought of. When we're talking about Social Security income then we're also not only just talking about retirees but we're also talking about a large segment that is the disabled or has some type of disability payment... [LB165]

JAMES CAVANAUGH: Right. [LB165]

SENATOR SCHEER: ...that would also qualify as well. But that's what you said, I think. Is that correct? [LB165]

JAMES CAVANAUGH: Correct. This bill says income under the Social Security Act. It doesn't differentiate between SSI, SSD, or retirement income. [LB165]

SENATOR SCHEER: Okay. And going back to one of the questions of a previous senator, the introducer, what ballpark is for the retirement, because it's what we were talking about earlier, what's the ballpark of somebody that retires at 65 as far as retirement for Social Security? Do you have an idea? [LB165]

JAMES CAVANAUGH: You mean percentage of the... [LB165]

SENATOR SCHEER: No, how many dollars would we be talking about as far as his benefit would be coming from Social Security? [LB165]

JAMES CAVANAUGH: The average benefit? [LB165]

SENATOR SCHEER: Yeah. [LB165]

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JAMES CAVANAUGH: Well, you know, I did the math based on the numbers that we received from the Social Security Administration and those are rough. You're going... [LB165]

SENATOR SCHEER: You mentioned \$14,000 or something like that, so I was just wondering if that was the average or what you were... [LB165]

JAMES CAVANAUGH: It would be an average. I mean I could get you probably a much more accurate number but it would vary from category to category so that the sum that you would receive under Social Security Disability, or SSI, probably on average would be substantially less than the sum that you would receive after full retirement, simply because they're different systems and they're calculated differently. SSI is essentially a welfare system, a need-based system. SSD, like retirement, is based on your years of income as a form of a wage replacement system, so that will vary widely depending on your income over the last five years before you become disabled. And then your retirement, of course, is based on your career and, you know, it's probably again higher than the average would be for either SSI or SSD. So you know, putting all three of those together, you kind of come up with what would be a lower figure. But the bulk of the people eligible for this proposal would be in that latter category, the retiree category. [LB165]

SENATOR SCHEER: Okay. Thank you. Thank you, Senator Gloor. [LB165]

SENATOR GLOOR: Senator Schumacher. [LB165]

SENATOR SCHUMACHER: Thank you, Senator Gloor. Thank you for your testimony today. What percentage of the couples in Nebraska, on Social Security for retirement proposes, have incomes greater than \$30,000 a year? [LB165]

JAMES CAVANAUGH: Well, I don't know. [LB165]

SENATOR SCHUMACHER: Okay. Whatever that percentage is, say it's 70 percent, if you don't have to file a tax return, a joint tax return on a couple until you have income in the low 30s, they wouldn't receive any benefit from this, would they? [LB165]

JAMES CAVANAUGH: I don't understand. [LB165]

SENATOR SCHUMACHER: Okay. If 75 percent of the couples in Nebraska who are on Social Security make less than \$30,000 a year, Social Security retirement, interest, whatever,... [LB165]

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JAMES CAVANAUGH: Uh-huh. [LB165]

SENATOR SCHUMACHER: ...and you don't even have to file a tax return until you make \$30,000 a year, then that 75 percent would receive absolutely no benefit under this bill. They don't even have to file. [LB165]

JAMES CAVANAUGH: I suppose that's right. [LB165]

SENATOR SCHUMACHER: Okay. So what we're talking about then is the people who are not really poverty stricken but of other, supplementally, things that put them in the, for arbitrary purposes, the 25 percent who aren't poor. [LB165]

JAMES CAVANAUGH: Okay. Well, if you consider a couple with a total income of \$30,000 not poverty stricken, I'd recommend that you check the requirements for two people alone and relative to qualifying for need-based poverty programs, not only in Nebraska but in the United States. [LB165]

SENATOR SCHUMACHER: And that's why the number is so important that we have an idea of how many people in Nebraska right now, Social Security, everything else, couples are making less than the filing requirement. Because if that's a big number, a majority, then this bill is not focused at that need. This focus...bill is focused at people who have some other significant source of retirement income other than Social Security. [LB165]

JAMES CAVANAUGH: And if that's your concern, and I can understand that, you could cap this. You know, I mean on the measure that was taken in the previous years, essentially that's what you talked about was we're going to exempt X amount of income, you know, and over that we're not going to give this to, you know, millionaires and billionaires. We're going to give this to the middle class. [LB165]

SENATOR SCHUMACHER: But at the high percentage, and I'm just arbitrarily using 75 percent, if they aren't even touched by this bill,... [LB165]

JAMES CAVANAUGH: Oh, I... [LB165]

SENATOR SCHUMACHER: ...because they don't make \$30,000,... [LB165]

JAMES CAVANAUGH: Yeah. Yeah, but it's not...it's... [LB165]

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SENATOR SCHUMACHER: ...a year, then we can cap it at whatever and it isn't going to do them any good. [LB165]

JAMES CAVANAUGH: Well, first of all, I don't think you're at the high percentage. And, you know, that could be good or bad. But if that's your concern, that you're not going to subsidize people with high retirement incomes, then pick a reasonably high number and cap it at that. [LB165]

SENATOR SCHUMACHER: And to the extent that income is higher than what you can get off Social Security and wasn't taxed when it was put into the retirement fund, why should it not meet the social contract of being taxed when it comes out instead of having it come out of either some cuts in social programs or some increases in somebody else's taxes? [LB165]

JAMES CAVANAUGH: Well, aside from the simple equitable argument that you should take from those who have the ability to give, to give to those who have the greatest need, if you want to put that aside then you should address the social inequity of the fact that I this year will pay the exact same Social Security tax as Warren Buffett, as Bill Gates, and you don't address that. What your concern is on the other end of the spectrum, on the payout, that someone might, Warren Buffett for instance, get a benefit that maybe they don't need. And I'm not arguing that part of the equation with you. They are taxed on the front end and I was interested in your analysis that there was no tax. We pay for Social Security. You understand that. It's not free. [LB165]

SENATOR SCHUMACHER: As long as your Social Security benefits are less than the filing requirement, there's no tax on it. And... [LB165]

JAMES CAVANAUGH: On the payout side, but you're talking about paying into this scheme. The first \$110,000-\$112,000 of your income is subject to Social Security tax. [LB165]

SENATOR SCHUMACHER: But your retirement income, when you put that into that fund, that's deductible from above the line. And so then you say, I agree with you, you know, there's a theory that you should take from the wealthy and give to the needy. But our tax policy and the pressures against income taxation and for reduction in income taxation would have us take from the needy to give to the needy. [LB165]

JAMES CAVANAUGH: Well, I'm not in favor of that. (Laughter) Well, I don't think that you're taking from the needy by giving these people an average of \$364 more per year by not... [LB165]

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SENATOR SCHUMACHER: But you're...see, in that average figure of \$360 per year are all the people who aren't benefited at all. So somebody is getting a whole lot...the people who are above that filing limit of \$30,000-ish, they're getting a whole lot more than the \$330 because you're averaging those all together. [LB165]

JAMES CAVANAUGH: And if it would make you feel more comfortable to move this bill, to put a reasonable cap on the benefit, I wouldn't argue with that. [LB165]

SENATOR SCHUMACHER: Thank you, Mr. Cavanaugh. [LB165]

SENATOR GLOOR: Senator Davis. [LB165]

SENATOR DAVIS: Just a couple of points I guess first of all. And Senator Schumacher is correct. When a person works and there's Social Security withheld, that is for your pension down the road. So calling it a tax is a little bit dubious. But then when you...if you make \$100,000 and you pay 6.2 percent of that tax, then on your tax statement you're reporting not \$100,000 but you're reporting that lower figure. Isn't that right? [LB165]

JAMES CAVANAUGH: Yes, but it's... [LB165]

SENATOR DAVIS: So it's not. So that income isn't taxed going in, that... [LB165]

JAMES CAVANAUGH: Well,... [LB165]

SENATOR DAVIS: ...\$6,200. [LB165]

JAMES CAVANAUGH: ...in the sense that the government takes that 6.5 percent from you and holds it for you until you receive it in retirement, that's not technically a tax, but the government also takes from you and holds, to spend on roads or schools or whatever, whatever else percent of your income that they take, and that is tax. So it's a fine line. Government is taking your money in today's time and doing something with it, either over the short term, paying for your schools, paying for your roads, paying for this building, or in the long term paying for your retirement so that we won't go back to the system where 75 percent of our elderly worked till they died and most of those people in poverty. Now society, you know, makes a contract to do all of those things, to run a decent school system, run a decent road system, and not have our elderly live in poverty. All we're saying is we can do all those things just as well and do this little bit better for the people who, you know, no longer have much ability to earn income. [LB165]

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SENATOR DAVIS: You know, and I sympathize with that. My concern is probably the same as Senator Schumacher's which is, you know, the vast majority of people probably don't even meet these criteria. So you know, are we essentially just incentivizing high-income people that can already afford to pay the tax? And you know, the other side of that story, of course, and, you know, I would say if Senator Lindstrom can find the \$100 million somewhere, that's great. But you know, I think a lot of great minds have worked in this Legislature to try to find savings and they're not as easily found as, you know, as you think. [LB165]

JAMES CAVANAUGH: And I think that's right, and I think this committee and you, as an individual member, have measures in today that have fiscal notes in a similar range to do a variety of laudable goals, from property tax relief to state aid to education, you name it. I don't know that those things would have as immediate a multiplier effect as this would for those 300,000-plus Nebraskans. And you know, even if it would, you've got proposals that would do similar stuff, laudable proposals. We're just saying there's people that this would have real help for and there are also people that we're losing, that Nebraska is losing, because we don't do this that many other states do. So you know, I know people and you know people, we probably all know people who are reaching retirement age, not enormously wealthy. They're moving to Arizona and they're moving to Florida or they're moving to someplace that has a more... [LB165]

SENATOR DAVIS: Do you think they're doing it to save \$365 apiece per year? [LB165]

JAMES CAVANAUGH: Well, they probably have a little more in benefit than the \$14,000 that that's predicated on. I do. I presume that you do. [LB165]

SENATOR DAVIS: Are you a gambler? [LB165]

JAMES CAVANAUGH: I'm sorry? [LB165]

SENATOR DAVIS: Are you a gambler? [LB165]

JAMES CAVANAUGH: A gambler? [LB165]

SENATOR GLOOR: Wrong committee. (Laughter) [LB165]

JAMES CAVANAUGH: I'll enjoy a friendly game of poker. [LB165]

SENATOR DAVIS: Do you ever go to the casinos in Iowa? [LB165]

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JAMES CAVANAUGH: I'm sorry? [LB165]

SENATOR DAVIS: Do you go to the casinos in Iowa? [LB165]

JAMES CAVANAUGH: I do not. [LB165]

SENATOR DAVIS: Would you venture to guess the average age of someone at the casinos in Iowa? [LB165]

JAMES CAVANAUGH: I don't know. [LB165]

SENATOR DAVIS: Probably retired, I'm going to say. My point being, you know, we spend \$175 per Nebraskan at the casinos in Iowa, so in some respects the multiplier effect that you talk about may be shifting across the river. Just food for thought. [LB165]

JAMES CAVANAUGH: Well, I wouldn't argue that with you but... [LB165]

SENATOR DAVIS: That's another thing we ought to deal with at some point. [LB165]

JAMES CAVANAUGH: Possibly. Possibly. [LB165]

SENATOR DAVIS: Thank you. [LB165]

JAMES CAVANAUGH: Thank you. [LB165]

SENATOR GLOOR: Senator Brasch. [LB165]

SENATOR BRASCH: Thank you, Chairman Gloor. And thank you, Mr. Cavanaugh, for coming forward. I do have some questions because I do believe Nebraskans are reasonable people who want to do the right thing. And when I see this bill and I hear the \$365 benefit per person and the fact...is it that we're 1 of 11 states that is not tax friendly for retirees? Is that... [LB165]

JAMES CAVANAUGH: I think that's right, Senator, and you'll hear some testimony from a following witness that goes directly to that point. [LB165]

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SENATOR BRASCH: Because my belief is that trying to do the right thing, if a person is retired and cash strapped, they don't have the ability or the wherewithal to move to Colorado... [LB165]

JAMES CAVANAUGH: Right. [LB165]

SENATOR BRASCH: ...or to Missouri, I believe was another state. So are we truly doing justice with this bill for the cash-strapped retiree, or are we just...I don't know. Your thoughts? Will this be a huge benefit? And maybe the ones that follow will say how this will benefit those who are cash strapped and can't leave the state. [LB165]

JAMES CAVANAUGH: Right. I think it will. Those people are the ones that are most inclined to spend their entire benefit every month, and if it goes up by this modest amount, they'd be closest to that modest amount, absolutely. They're the most inclined to do that. And you're right, they have the least mobile lifestyle. They can't pick up and go. But even those that can, say the broad middle-class people, you know, that's a hard thing. If you've done all of your life here--I'm a native Nebraskan, born and raised here, my family is here, you know, got children and grandchildren--why should you go someplace else? I mean I, you know, I truly believe in Nebraska the good life. A lot to be said for staying where you were raised and I think that's part of the Nebraska ethic actually. So what's wrong with trying to make that easier for people to do? I mean that's, I think, part of what you do at your best as a Legislature is try to make this the best place that people, you know, can elect to live. And so I think this is a modest little step in that direction. It's not a silver bullet. It's not a cure-all, but it's a step in the right direction. [LB165]

SENATOR BRASCH: Okay. Very good. I have no other questions. Thank you. [LB165]

JAMES CAVANAUGH: Thank you. Thank you. [LB165]

SENATOR GLOOR: Other questions? Seeing none, thank you, Mr. Cavanaugh. [LB165]

JAMES CAVANAUGH: Thank you, Senator. [LB165]

SENATOR GLOOR: Other proponents. Good afternoon. [LB165]

ROGER REA: (Exhibit 1) Good afternoon, Senator Gloor, members of the committee. I am Roger Rea. For the record, my name is spelled R-o-g-e-r R-e-a. I'm 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. Several bills have been introduced this year to make Nebraska more retiree friendly. Nebraska is

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often described as being one of the least retiree friendly states in the nation. One of the reasons that Nebraska has that dubious distinction is that Nebraska taxes Social Security income, something that very few states do. I am pleased that last year the Legislature passed LB987, which increased the threshold income required before Nebraska residents will pay state income tax on their Social Security benefit. I'm here today to support LB165, which would phase the Nebraska state income tax on Social Security out over a five-year time frame. I believe that's the right thing to do for Nebraska retirees. One unintended consequence of the unfavorable tax treatment of that retirement income is that a significant number of Nebraskans leave the state about the time they retire. According to U.S. Census estimates, there are about 89,000 Nebraskans between the ages of 61 and 65, 113,000 between the ages of 56 and 60, and 155,000 between the ages of 50 and 55. Between 2007 and 2012, Nebraska's population of people 65 and older declined due to out-migration every single year except 2009, and the only exception to that out-migration occurred in the year that followed the most severe downturn in the last 50 years. Workers begin to consider where they will live during their retirement years about the time they reach age 50 or 55. Nebraska needs to take action now to help attract and retain citizens in that age group. One step the state could take would be to eliminate the state taxation of Social Security benefits. Analysis of the census data shows that people age 55 and older who move from Nebraska to other states are generally more those with larger disposable incomes than the people who come in that same age group to Nebraska from other states. I will make the case of retirees represent an untapped economic resource for the state. The income that retirees have from Social Security, pensions, savings and investments, as well as the money that comes to them in the form of Medicare benefits, represents a huge economic engine for the state. The reason for this economic engine is very simple: retirees spend their retirement income where they live. They support their local grocery stores, restaurants, clothing stores, hardware stores, movie theaters, car dealers, and doctors and pharmacies, to name just a few businesses. Iowa and Missouri offer the opportunity to learn two case studies close to Nebraska. Missouri began phasing out its income...state income tax on Social Security benefits in 2008. In Missouri, Social Security benefits were fully tax-free by 2012. Iowa phased out its state income tax on Social Security benefits starting in 2010. In Iowa, all Social Security benefits were state tax-free last year, 2014. The UNO Center for Public Affairs recently tracked domestic migration of people age 65 and older for 2011 and 2012, and examined net migration for Nebraska, Iowa, and Missouri. The results were revealing. While Iowa had a net out-migration of people older than 65 for both years, in 2011, the second year of their phaseout of the tax on Social Security income, the state lost 2,307 people. In 2012, during the third year, the loss was only 995 people--an improvement of 1,312. Iowa retained 1,312 people 65 or older as they phased out the taxation of Social Security. For Missouri, in 2011, the final year of the phaseout of taxes on Social Security for the state, the state had a net out-migration of 1,356 age 65 or older. In 2012, the first year that Missouri did not tax Social Security benefits at all, they experienced a net in-migration of 1,310 people who are age 65 or older--an improvement of 2,666 people. Missouri turned a net out-migration of people age 65 and older to a net in-migration when they eliminated the state tax on

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Social Security. For Nebraska, which fully taxes Social Security benefits, 2011 they showed a net out-migration of only 56 people age 65 or older. However, in 2012 they showed a net out-migration of 1,937 people who are age 65 or older--a worsening of the net out-migration by 1,881 people. Nebraska's trend for out-migration will only worsen unless the state takes dramatic steps to attract more people who are age 65 or older. The UNO Center for Public Affairs recently did an update on the study of net migration for people age 65 and older over multiple years. They studied three-year periods of time, 2008 to 2010, when Missouri and Iowa were still taxing at least part of the Social Security benefit, and compared that to 2011 through 2013, while Iowa was still taxing at least part of the Social Security benefit and Missouri was not taxing its Social Security benefits. The three-year comparisons are even more revealing. Iowa lost about 2,300 people age 65 or older during each of the time frame, each year of the time frame, as they were phasing that exemption of Social Security taxes out. Missouri gained about 2,000 people in the same age group while it was the final stages of taxing Social Security, and gained 3,100 more during the three-year time frame when it was completely tax exempt on Social Security benefits. Nebraska, on the other hand, lost population of this age group during each three-year time frame and lost about 1,500 more during the most recent three-year period time frame than it did in the prior three-year time frame. 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 states. Taxing Social Security benefits at the state level does not keep our elderly and disabled citizens out of poverty. Taxing those benefits pushes them closer to poverty. I urge you to do the right thing regarding taxation of Social Security benefits. I urge you to make Nebraska more retiree friendly in order to slow and hopefully reverse the out-migration of Nebraskans at the time they retire. We've seen the success that an enlightened tax policy has on populations age 65 and older in both Iowa and Missouri. I urge you to advance LB165 to the full Legislature for full debate. Be glad to answer any questions. [LB165]

SENATOR GLOOR: Thank you, Mr. Rea. Are there questions for Mr. Rea? Seeing none, thank you for your testimony. [LB165]

ROGER REA: Thank you. [LB165]

SENATOR GLOOR: Next proponent. Good afternoon. [LB165]

JOHN JENSEN: Senator, I am John Jensen, J-o-h-n J-e-n-s-e-n. I live in Omaha at 3705 North 114th Avenue. I'm about 15 miles from Iowa. And if I move to Iowa, I would save significantly more than \$384 because my income is higher as a retired person. I'm going to not give the first half of what I was going to say because it's already been said. [LB165]

SENATOR GLOOR: Thank you. (Laughter) [LB165]

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JOHN JENSEN: And that's our surrounding states don't tax Social Security. But in spite of the law that we passed last year, which was a great start, Nebraska is still last among our neighboring states, and we're still one of the worst in the country. It didn't change that. It is correct that those who are cash strapped may not move to Florida, but they might move to Iowa. And if I move to Iowa, I would save some significant money. I've had friends who moved from Missouri, which had a tax at the time, to Florida, and they're still there. They're not going to come back. And they won't move back to Missouri now that they've changed that law. We're still one of the worst in the country. There are states that value retirees and they're going after the higher income retirees. Look at what they do in Florida, Arizona, Georgia, North and South Carolina. They all actively pursue retirees from other states. South Carolina has retirement villages filled with out-of-state retirees, all with significant incomes. If I were to move to Iowa, not only would I take my income with me to Iowa, I would be shopping at the Hy-Vee over in Council Bluffs or someplace. I wouldn't come over to Omaha to do that. But all my income leaves. And since I'm not working, there's no...I mean the income is totally gone. If you have a worker who moves to Iowa then there's going to be another worker who replaces that person. There's not going to be a person to replace me, because I'm not working in the first place. So why did these states do that? It's good for business. They know it's good for business. Nevada did a big study on should we do the same thing as these other states and start pursuing retirees, and the answer was yes. The answer was yes. That was about a 2011 study. So I ask you to do the right thing for Nebraskans, senior citizens and Nebraskans. Please pass this bill out of committee. You'll be doing the right thing for elderly Nebraskans and it will be good for business. Up in southeast...North...or South Dakota, rather, these are state...it's around Dakota Dunes for right next to Nebraska, and then you take the counties in South Dakota that are right next to the border with Minnesota. Senator Lindstrom said, and I didn't know this, that there's a bill introduced in Minnesota that does this same thing--takes away taxation. I know why they're doing it up there, because they're losing significant income to South Dakota in these counties. I saw a map that looked...that showed the income per county and those counties are much higher in average income than Omaha, Sarpy County, Cass County, any county you want to pick in Nebraska, significantly higher, because these are upper-income people that are moving there, all the way up to South Sioux, Sioux Falls. You get above Sioux Falls, it gets mighty cold up there so it doesn't matter anymore. And we have to do what's right. And from a personal note, Social Security helped my parents very much. It helped. My sister died of cancer when she was 39; had four kids, one in college. Social Security helped them get through college. Without that help of Social Security, they wouldn't have gone through college. They're now productive citizens in the state of Washington, and that was all because of Social Security. You know, that disability and the help for the kids, that's good business too. And with that, I will answer any questions that you have. [LB165]

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SENATOR GLOOR: Thank you, Mr. Jensen. Do you see property tax relief as also of benefit to retirees in terms of improving our stature or our ranking or whatever measure people use to show that? [LB165]

JOHN JENSEN: More and more of...for some, yes. But more and more of my friends are moving to apartments. They're renting. They're not...they're getting rid of their big houses. They have no use for it. They want to downsize. So it helps them less. For others, they keep their big house, yeah, it would help them. Being in Omaha, it's a fairly high property tax area. Of course it would help me. I want to remind the senators that when you talk about retirement income not being taxed when you take it, it's not necessarily true. I mean it's still taxed in many, many cases when you take it out. It's not taxed when it goes in, but my first job was...I was 15. The very first dollar I made I paid at that time it was not 6.2 percent, it was a little bit less, but I paid into Social Security. I've been paying on first dollar each and every year, and I still do with any earned income that I might have. So I subbed for a while and so there's more earned income. I pay more Social Security in. I've paid my fair share. Historically, to remind you--I'm sure you already know this--before 1984 the federal government did not tax Social Security. In 1984 they had passed a law, it was a big, big change, and they started taxing up to...above a certain income they taxed 50 percent of Social Security benefits. All of that money went in to creating the Social Security Trust Fund. It all went into creating which is now a \$2.6 trillion fund. It went to help senior citizens; did not go into the general revenue stream of the federal government. Most states decoupled and did not count that Social Security income that all of a sudden, if they were coupled with the federal government taxation like we are here in Nebraska, they decoupled the Social Security part of it. That's why we're an outlier. That's why we're one of a few states that tax Social Security as we do. Most states completely decoupled and never taxed anything on Social Security. [LB165]

SENATOR GLOOR: Okay. Thank you. [LB165]

JOHN JENSEN: Uh-huh. [LB165]

SENATOR GLOOR: Are there other questions for Mr. Jensen? Seeing none, thank you... [LB165]

JOHN JENSEN: Thank you. [LB165]

SENATOR GLOOR: ...for your testimony. Next proponent. [LB165]

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DICK CLARK: Chairman Gloor, members of the Revenue Committee, my name is Dick Clark, D-i-c-k C-l-a-r-k, and I'm director of research for the Platte Institute. Thank you for this opportunity to speak today in support of LB165, which would phaseout Nebraska's taxation of Social Security benefits. Sources like The Wall Street Journal, Kiplinger's, and the Family Business Coalition describe Nebraska as a hard place to die, especially in comparison with some of our neighbors, like South Dakota and Wyoming. I won't recite all the rankings but Nebraska is near the bottom of those lists. Nebraska is also a hard place to grow older in because we impose income tax on fixed income streams that retirees count on, like Social Security benefits. As of last year, 28 states exempt Social Security benefits from income tax altogether, and that isn't counting the states that have no state income tax to begin with. As Travis Brown demonstrated in his book, How Money Walks, tax policy can drive interstate migration. And the average tax migrant's AGI is less than \$50,000. When federal officials talk about Social Security, we often hear about trust accounts and bonds, and the public imagines that their hard-earned dollars are tucked away until that day when the worker is allowed to draw against what he or she has paid into the system. The reality is that Social Security is a tax program and an entitlement program. This is why we're using the words "income tax" today without reference to "capital gains tax." But the fact is that people have paid into the Social Security retirement system anyway, after it was sold to them politically with the rationale that it would be there for them when they need it. If you think that it's right to tax Social Security benefits, shouldn't you at least consider whether or not there was an actual increase, in terms of benefit income over the base...excuse me, over the basis in Social Security tax paid? The federal government has taxed people for years with the promise of a future benefit. Then it taxes that benefit. And then Nebraska piles on and taxes it too. We can afford to reduce taxes on Social Security benefits. Thank you again for the opportunity to speak today in support of LB165. [LB165]

SENATOR GLOOR: Thank you, Mr. Clark. Are there questions? Senator Harr. [LB165]

SENATOR HARR: Thank you. Thank you, Mr. Clark, for coming down today. And I'm a little confused. Is Social Security paid for, when we pay into that FICA, is that pre- or post-tax dollars? [LB165]

DICK CLARK: I'm sorry? [LB165]

SENATOR HARR: Is that pre- or post-tax dollars? [LB165]

DICK CLARK: It's financed through a tax, right,... [LB165]

SENATOR HARR: Yeah, is it paid... [LB165]

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DICK CLARK: ...and those are separate programs under federal law. [LB165]

SENATOR HARR: So is it pre- or post-tax dollars? [LB165]

DICK CLARK: Is the tax pre- or post-tax dollars? [LB165]

SENATOR HARR: Yeah. [LB165]

DICK CLARK: I mean when you pay a tax, those are tax dollars flowing into some tax-collecting entity, right? I guess I'm not understanding your question. [LB165]

SENATOR HARR: Okay. Well, let me come back to that then. You're here testifying in favor of LB165. A couple years ago your group came in and testified against the total elimination of income tax. I'm assuming...LB267 is coming up. Are you guys testifying in favor or against that? [LB165]

DICK CLARK: I'm afraid I'm not sure which one LB267 is off the... [LB165]

SENATOR HARR: Senator Crawford's to change the tax...income tax exemption for military retired. [LB165]

DICK CLARK: Oh, sorry. Yeah, I will be testifying on that. [LB165]

SENATOR HARR: Okay. In a prior life, you worked for the PRO Office. You understand it takes money to run the government. [LB165]

DICK CLARK: Yes, sir. [LB165]

SENATOR HARR: Explain to me what we should look to, to setting our priorities. If we don't tax veterans, we don't tax the seniors, we don't tax the wage earner, who do we tax to...? And yet we also, on the back end, we want good schools. We want really good schools for our kids because they are our future. We want bridges. We want good roads. You know, someone has to take care for the poor that can't take care of themselves. Maybe that's where we cut. I'm not sure. Maybe that's what you can explain to me. But at some point we have to find a way to finance the world we live in. We're going to hear a lot of bills on property taxes, that they're too high. My question is, how do you...it's easy to sit up here, it's easy...or sit in your seat and say, hey, cut, cut, cut. And it's easy for us on Revenue to say, yeah, that's a great idea. The problem is we have the

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other side of the building with Appropriations. So this has a huge fiscal note, \$109 million. I know Platte Institute has their Nebraska family roots or another plan. Is that incorporated, this? Is this incorporated bill into that cost of that program, of that bill? And how do you propose to pay for all this, I guess? [LB165]

DICK CLARK: Okay, Senator. So first off... [LB165]

SENATOR HARR: Did I ask enough questions, because I can ask more too. I'm sorry. [LB165]

DICK CLARK: (Laugh) I'm going to try to...I'm going to dial them back through my head so I can get out all the answers. [LB165]

SENATOR HARR: Yeah, I'm sorry. I kind of dialed off. Sorry. [LB165]

DICK CLARK: No, that's all right. So first off, I'm only here today to testify, at least in this hearing, relating to LB165. Not here to testify on LB357 or any other bill. Certainly the Platte Institute's priority when it comes to tax reform is a broad-based reform that provides relief to all taxpayers. I think with LB165, though, there's more of a moral component there. But there is an economic growth component too. And to answer your question about how we pay for government services, I would point out research, and I can provide you the citation later, that shows that there isn't in fact, a direct correlation between the number of dollars spent on public services per capita and the quality of those services. So it's actually not the case that states that spend more get more. So I would say that there are some areas where Nebraska spends greater than the national or the regional average in a variety of our programs and there are savings that can be realized through making those programs more efficient. And we have other studies that address a number of those policy areas. Is that responsive, Senator? [LB165]

SENATOR HARR: I agree, we should have better services and less taxes. It's just doing that. That's the tough part. It's easy to sit up here and tell us that. The hard part is actually doing it. [LB165]

SENATOR GLOOR: Senator Brasch. [LB165]

SENATOR BRASCH: Thank you, Chairman. And thank you, Mr. Clark. My question to you, because you've been in the research area, is what percentage of the population are we talking about in the big picture here in the state of Nebraska? [LB165]

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DICK CLARK: Senator, I again have to defer either to a later testifier or I'd have to get back to you with those figures. I'm afraid I don't have them with me right now. [LB165]

SENATOR BRASCH: Okay. I have no other questions. Thank you. [LB165]

DICK CLARK: Thank you. [LB165]

SENATOR GLOOR: Seeing no other questions, thank you, Mr. Clark. [LB165]

DICK CLARK: Thank you, Mr. Chairman. [LB165]

AL MUMM: (Exhibit 2) Good afternoon, Committee. [LB165]

SENATOR GLOOR: Good afternoon. [LB165]

AL MUMM: My name is Al Mumm, first name A-l, last name M-u-m-m. I'm president of Nebraska Alliance for Retirement Americans. We're here to testify in behalf of LB165. Income from retirees is "green income," does not require additional state expense to provide infrastructure, does not pollute the water or air, generates ancillary jobs to provide goods and services for the retirees, and is almost certain to be spent in the local economy. Last year's bill that established thresholds of income level for taxation of Social Security was a step in the right direction. We feel that the thresholds of \$43,000 a year income for singles and \$58,000 income for couples being where taxation of Social Security stopped were too low and should have been indexed for inflation. Plus, we want to prevent the so-called cliff effect where if a couple, for example, makes \$58,000 or less, their Social Security is not taxed; but if they make \$58,001, their Social Security is taxed the full amount. LB165 would address all those concerns and phasing it in over five years would be similar to what the states of Iowa and Missouri have done. I might also point out that railroad retirement, separate from Social Security, is not taxed in Nebraska, and you might say that was a question of fairness, why that is indeed that way. Lastly, some retirees do indeed leave Nebraska due to taxation, and they don't just go to the warm weather areas. South Dakota, Missouri, and Iowa now are more attractive to some of them than Nebraska. I think the economic benefits of this, people having more income in their pocket to spend, people not leaving the state and staying here with their incomes has to be considered in along with the fiscal effect of this bill. [LB165]

SENATOR GLOOR: Thank you. Questions? Senator Davis. [LB165]

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SENATOR DAVIS: Can you elaborate on what you mean when you say it's "green income." I'm not sure I follow you. [LB165]

AL MUMM: Well, in other words, if I'm getting a check from Social Security or a pension, I'm not working at a coal-fired power plant or something that might be polluting the air. Simple. [LB165]

SENATOR DAVIS: Okay. Thank you. [LB165]

SENATOR GLOOR: Other questions? Seeing none, thank you for taking the time. [LB165]

AL MUMM: Thank you. [LB165]

JASON HAYES: (Exhibit 3) I will be brief. Good afternoon, Senator Gloor and members of the committee. For the record, I am Jason Hayes, J-a-s-o-n H-a-y-e-s, and I'm representing the Nebraska State Education Association. I am testifying in support of LB165. I want to provide a few resources for the committee's consideration, and I'll wait till that gets handed out. Okay. The first is a September 2013 map from the Tax Foundation. This map is somewhat dated, based on what the Legislature did last year in LB987, but I believe there are only two changes to the map. First, Nebraska would be labeled yellow, as a state now having a benefit exemption subject to a condition, which we've talked about: \$58,000 for married, \$43,000 for all others. And the only other change is that Iowa is now a blue state on the map as of...and as of 2014 Iowa exempts 100 percent of its Social Security benefits. Next, in a September 2014 publication by Kiplinger, the next page, it places Nebraska in the ten least tax-friendly states for retirees, which I believe Senator Brasch had alluded to earlier. I have included the parameters of their survey on the next page, and they do recognize the recent 2014 Nebraska tax change to Social Security. We believe that the adoption of LB165 would help get Nebraska off that unfriendly list and would bring it in line with the majority of other states. And I thank you for consideration of this bill. [LB165]

SENATOR GLOOR: Thank you for the information, Mr. Hayes. Questions? Apparently none. Thank you. [LB165]

JASON HAYES: Thank you. [LB165]

MARK INTERMILL: (Exhibit 4) Good afternoon, Senator Gloor and members of the committee. My name is Mark Intermill, M-a-r-k I-n-t-e-r-m-i-l-l. I'm here today representing AARP. This will be the first of four appearances that we will have regarding tax legislation before this committee, all of which will reduce taxes. We will also be going to other committees

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with suggestions of ways the state can spend a little bit of money, and I have a little bit of trepidation in doing that. So what I have before you today, we do appreciate Senator Lindstrom introducing this bill. It's generated a good discussion. We would like to propose possibly an alternative. We'd like to keep this idea of reducing some of the Social Security benefits that are coming into Nebraska from taxation. As was mentioned earlier, 1983 is when we started taxing Social Security benefits. Before then, Social Security benefits were considered to be public benefits and were not taxable. In 1983 the decision was made that they function more like a pension, and since half of the contribution was made by the individual, half by the employer, half of the Social Security benefits, the employee's share, was taxed. In answer to a question that came up earlier about are benefits taxed going in, they are from the employee's side. So if I had \$100,000 in income, \$6,200 would be my contribution, \$6,200 my employer's. The tax...income tax would be levied on the \$100,000, not on the employer's share but on the employee's share. Twenty-five thousand dollars in 1983 is where the federal amount stands today. Twenty-five thousand dollars is not worth as much today as it was back then. If it had been adjusted for inflation, the \$25,000 threshold--in my fourth paragraph, at the bottom of the paragraph--\$59,421 would be the threshold for a single person, \$76,059 would be the threshold for a couple. What we did last year through LB987 was to set the threshold for taxation in Nebraska at \$43,000 for a single person, \$58,000 for a couple. We didn't get to what inflation would mean to those original \$25,000 and \$32,000. And that's what I would like to propose for your consideration, that we do adjust those thresholds by easing into the tax...easing out the tax burden up to those thresholds, phase out the exemption so that we could get to that inflation-adjusted threshold. I do have an attachment to my statement of just a suggestion of how that might look. As Mr. Mumm mentioned, we do refer to this as the cliff effect. When you reach that \$43,001, all of your Social Security benefits, or 50 percent, would be subject to taxation. I have an example in my testimony that amounts for that \$1 the marginal tax rate would be about 72,000 percent. So we do get to the point at which a person, when they get to that point, would see a significant increase in their tax, income taxation. I did also want to just address a couple of the other questions that came up earlier. Senator Schumacher had asked about what's the maximum benefit. It's \$32,704. That would be if you had a, in 35 years of your career, you earned the maximum or what is now \$110,000, so that that, if you had earnings of that for 35 years, you would have \$32,704 in benefits. And Senator Scheer asked about the average benefit. The last page of my testimony has some information about what Nebraska's taxation amounts for people who have Social Security benefits, what those averages are. So that's in the testimony. Also that will give you a sense of how many beneficiaries there are across the nation and what their income...across the state, I'm sorry, and what their income levels are, as well as what percentage of the population would be covered. Basically, what we did last year was we exempted about 40 percent of the people who pay taxes on their Social Security benefits from taxation on those benefits. It amounts to about 20 percent of the taxable Social Security income in the state. What I would suggest in the...what I've attached is to extend that up to the point

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where it would be...would have adjusted for inflation. And my red light is on, so I will stop. [LB165]

SENATOR GLOOR: Mr. Intermill, have you had a chance to...how have you vetted this alternative proposal? I mean have you talked to Senator Lindstrom about it? Has the AARP board... [LB165]

MARK INTERMILL: We did. [LB165]

SENATOR GLOOR: ...been supportive of this? Have you been talking to members about it? [LB165]

MARK INTERMILL: We did. I did share it with Senator Lindstrom's staff that we were going to bring this. We basically, I think, we would like to at least see some degree of tax relief up to that, what that inflation-adjusted amount would be. So that's kind of where we're coming from in terms of taxation of Social Security. Also recognizing that the state has a lot of obligations that we need to be cognizant and that of the things that you will have to do to balance out all the various proposals before you. So it's an attempt to try to develop that balance between what the state's needs are in terms of revenue and at the same time going back to look at what the purchasing power of what was considered, back in 1983, as an income below which you shouldn't pay taxes on Social Security. [LB165]

SENATOR GLOOR: Have you been going around the state again with meetings with your constituencies? Would you say that when you meet with them, what seems to pop to the top of the list: Social Security exemption or property tax relief? [LB165]

MARK INTERMILL: Property tax. [LB165]

SENATOR GLOOR: Okay. [LB165]

MARK INTERMILL: We'll be back on a property tax bill too. [LB165]

SENATOR GLOOR: We would have sent out a search crew for you if you hadn't been here. (Laughter) Other questions? Seeing none, thank you. [LB165]

MARK INTERMILL: Thank you. [LB165]

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SENATOR GLOOR: Other proponents? Seeing none, anyone in opposition to this bill? [LB165]

RENEE FRY: (Exhibits 5 and 6) Good afternoon, Chairman Gloor and members of the Revenue Committee. My name is Renee Fry, R-e-n-e-e F-r-y. I'm the executive director of OpenSky Policy Institute. We're a data-driven, statewide, nonpartisan, Nebraska organization focused on budget and tax policy, and our board members are made up of Republicans, Democrats, and Independents from across the state. And we're here today in opposition to LB165. At OpenSky, we depend on research and analysis to evaluate the intent and the impact of tax policies. Certain tax policies may be proposed with very good intentions, but the actual result of such policies may not bear out that intent. Senator Lindstrom should be commended for his concern for the well-being of Nebraska seniors, especially those on fixed incomes. Ensuring that seniors aren't overburdened by the tax code is a laudable goal that all Nebraskans can agree on. However, low- and middle-income seniors already have most if not all of their income exempted from taxation. Enacting a property tax circuit breaker, as proposed by Senator Bolz with LB186, would do more to assist poor and middle-income seniors, and does include a renter's credit. Finally, LB165 carries a high price tag and will be more costly as Nebraskans age. The assertion is often made that exempting Social Security or other types of pensions is necessary to recruit new residents or keep people from leaving the state. However, academic research fails to find any such correlation between migration and taxes. In the National Tax Journal June 2012 edition, a study by economists Conway and Rork analyzed whether interstate elderly migration over time is influenced by changes in state tax policies targeting the elderly. The paper titled, "Do State Tax Policies Drive Away the Elderly?" found that state-to-state movement among the elderly was quite stable from 1970 to 2000, despite changes in state tax laws favoring the elderly. In other words, "state tax policies towards the elderly have changed substantially while elderly migration patterns have not." They found that: Our results are overwhelmingly in the failure to reveal any consistent effect of state income tax breaks on elderly migration. They went on to point out that these policies have significant revenue consequences that will only grow as population ages. Conway and Rork found that, "Our results, as well as the consistently low rate of elderly interstate migration, should give pause to those who justify offering state tax breaks to the elderly as an effective way to attract and retain the elderly." We also want to take this opportunity to correct the misperception that all Social Security income is taxed in Nebraska. Prior to the passage of LB987, more than 59 percent of Social Security benefits in Nebraska were exempt, and Nebraskans with incomes under \$75,000 would pay tax on about one-fourth of Social Security on average, and those earning less than \$30,000 paid on less than 4 percent of their benefits. And you can see in the handout that went around the changes that we estimated based on the passage of legislation of LB987 last year. So you can see here that for incomes under \$40,000, all benefits are now exempt. Furthermore, under the current system for exempting Social Security benefits, no more than 85 percent of benefits are ever taxable. According to the Social Security Web site, about 15 percent of benefits are attributable to the beneficiary's own contributions, which were taxed at the time that they were earned. So by exempting at least 15

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percent of benefits, double taxation is avoided. Senator Schumacher has pointed out in previous years that not everyone has pensions; talked today about some retirees working part-time. So do we exempt salary? Do we exempt dividend interest income? It's a slippery slope when you start to carve out exemptions for one group over another. The revenue loss implications of this bill are significant and will impair our ability to invest in areas, such as healthcare, that are important to seniors. So before carving out any more exemptions for any individual group, I would urge you to take a step back and determine exactly what the problem is that we're trying to solve for and whether an exemption will in fact resolve it. Thank you for your time. I'd be happy to answer any questions. [LB165]

SENATOR GLOOR: Thank you, Ms. Fry. Questions? Senator Scheer. [LB165]

SENATOR SCHEER: Thank you, Senator Gloor. Thanks for coming down. The only concern I would have, realizing that, in your testimony, you were talking about the Tax Journal, in 2012 edition, but the study's calculation stopped in the year 2000. Realistically, that's 15-year-old data. I'm not sure exactly at this point in time how relevant that is. It may not have as large of indication impact that perhaps some of the testifiers have alluded to, but I think it certainly has more than just a casual effect than it might have had back in the '80s and '90s. I think, personally, that might be a little too old of data to utilize as statically correct at this point in time. [LB165]

RENEE FRY: So it's the only longitudinal study that's ever been done and it was over the course of 30 years, so. [LB165]

SENATOR SCHEER: Oh, I can appreciate it, but it did stop in 2000. And we all know that there's been a lot of changes. And for example, based on the testimony, just within the last four or five years surrounding states have changed their tax indicators in relationship to Social Security. Now were those exoduses, in or out, directly attributed to that? I wouldn't know that. But, certainly, if you look at some of those states' numbers, there was change directly in those years that it started to...that the Social Security changes were taking place as well. So I'm not saying that the information is not correct up through 2000, but I do think that there may have been some changes that would be worth noting since then. And the fact they don't have another report to go by doesn't mean that we should necessarily use one of that age either. [LB165]

RENEE FRY: So there are more recent studies on migration. This is the only one that's been done on elderly migration specifically. Other reports on migration find that less than 1.7 percent of folks will move out of state in a given year. And what they find is that people move to be near families, they move for jobs and they move for warm weather. A lot of the data specifically with regard to seniors talks about the migration pattern staying consistent with seniors going to Sunbelt states, regardless of those tax changes. So I'm certainly able to provide other migration

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studies that are much more recent that find that taxes play a very, very small and not statistically significant role in those migration patterns. [LB165]

SENATOR SCHEER: But those migration patterns that you're talking about as far as taxes are the total population,... [LB165]

RENEE FRY: Uh-huh. [LB165]

SENATOR SCHEER: ...not exclusive to the one that we're talking to. So to a certain... [LB165]

RENEE FRY: Yeah, the only senior-specific study. [LB165]

SENATOR SCHEER: But just a minute. Excuse me. Excuse me. The only thing would be then we're talking apples and oranges because we are talking exclusively right now with those in a more aged situation than those in less. And if a study is based on the total population, I'm not sure that's applicable as well. [LB165]

RENEE FRY: I mean the only longitudinal study that's been done is the one that was in the 2012. And...but I can just say that in terms of migration patterns in general, there is more specific data, so. [LB165]

SENATOR SCHEER: And I appreciate that. I'm just telling you from my perspective, speaking only for myself, that seems to be a little old data...a little older data than would probably I would like to see. And unfortunately, no one else wants to fund that study. I can appreciate that. But it still to me is old data. [LB165]

SENATOR GLOOR: Other questions? Thank you, Ms. Fry. [LB165]

RENEE FRY: Thank you. [LB165]

SENATOR GLOOR: Anyone else who'd like to testify in a neutral capacity? Seeing none, Senator Lindstrom, you're recognized to close. [LB165]

SENATOR LINDSTROM: Thank you, Chairman. Thank you, Committee. I appreciate you taking the time today and I want to thank the testimony of the proponents. It's an important issue. I know that you all have a big job in the Revenue Committee. It's probably, in my opinion, the most important committee, is the lifeblood of how we run the government here in Nebraska. So I

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appreciate the consideration on LB165. I think it's an important step towards competing with the surrounding states, as you heard today. Most of the states around us have eliminated it or are working towards that to maintain their seniors. So I believe that Nebraska needs to take that step in competing with the surrounding states to keep seniors here. So with that, I'll say thank you and ask for the passage of LB165. Thanks. [LB165]

SENATOR GLOOR: Thank you. Are there any final questions? Seeing none, thank you for your presentation. That will end the hearing on LB165. We're going to take just a couple-minute break. We're going to try and reconvene again right about at 3:30, people to stretch their legs briefly. [LB165]

BREAK

SENATOR GLOOR: And we're back to our hearing. If I could have everyone's attention, please, we'll begin the hearing on LB267. Senator Crawford, welcome. [LB267]

SENATOR CRAWFORD: Thank you. Good afternoon, Chairman Gloor and members of the Revenue Committee. My name is Sue Crawford, S-u-e C-r-a-w-f-o-r-d, and I represent the 45th Legislative District of Bellevue, Offutt, and eastern Sarpy County. LB267 is one of several proposals to exempt some or part of military retirement income in front of the Revenue Committee this year. Last year the Legislature passed LB987 which included an exemption for new military retirees beginning in the tax year 2015. LB987 allows an individual who retires on or after July 18, 2012, to exclude a portion of their military retirement income. While I appreciate that this provides a tool to recruit new military retirees, LB987 fails to provide a tool to retain military retirees who have already chosen to live and work in Nebraska. The tax benefit applies only to new retirees. This sends the wrong message to Nebraskans who have already invested in our state. Since the bill's passage, I have heard from numerous military retirees, both in my district and across the state, who felt insulted by the policy in LB987. LB267, the bill before us today, is one option to correct that flaw and to ensure our tax policy includes military retirees who have already made a commitment to our state and to our communities. We initially explored amending LB987 just to expand it to include current military retirees. However, as we learned from the Revisor's Office, this was not possible without creating a closed class and the resulting constitutionality concerns. Given that information, we then returned to our proposal from last year and used that as the starting place for this year's bill. We do have a window before that other policy goes into place for any of the retirees to correct the situation and figure out something else, some way to make sure that we're providing a tax benefit for our established military retirees as well. More critical than any specifics in the bill before you today is the general principle of correcting Nebraska tax policy to recognize military retirees who already live here. As you know, Governor Ricketts has set aside \$20 million in his budget for military

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retirement tax changes. The fiscal note for LB267 falls well below that target. However, I offer this bill to ensure the committee has options to consider to fit an expansion of military retiree benefits within our eventual legislative budget package. LB267 is one of several options available as we consider tax policy for military retirement income. LB267 stresses three tax principles: one, protecting the progressivity of the income tax; two, targeting income tax credits to economic development; and three, protecting low-income seniors. If a more modest proposal is required for military retirees, even if it's much more ambitious than LB267, as it likely will be, I urge the committee to consider these three principles as you craft a solution. LB267 also includes a reporting requirement to track the impact of the tax exemption, which will be valuable as we assess the value of the tax exemption in future years to decide whether to retain it or expand it. LB267 contains two tax credits for military retirees who receive...excuse me, military retirees who receive military retirement income. One tax credit applies to military retirees who earn nonretirement income in the state of Nebraska. This exemption is tied dollar for dollar to income earned in the state. The bill includes exclusion maximums and income qualifications to preserve the progressivity of our income tax here in Nebraska. The caps are still competitive caps found in neighboring Colorado. The second tax credit applies to military retirees who are 62 years of age or older. Once the military retiree turns 62 years of age, he or she may exempt military retirement income up to \$10,000 provided that the military retiree meets income retire...excuse me, income requirements. And these requirements mirror the limits for Social Security exemption that we passed last year as part of LB987. The average age of a military retiree is 43 years old. These retirees leave the military with a second or third or fourth career ahead of them. What's more, many have moved multiple times over the course of their military career. In fact, only 9 percent of service members stay at one assignment for four years or more. After moving multiple times throughout their career, many decide to relocate to a state that does not tax their retirement benefits or at least offers some sort of tax credit or exemption for their military pay. So in the last hearing you were discussing the 2012 National Tax Journal study about retirement and tax, the impact of tax policy on mobility of retirees. I just want to point out that if you get that study, I have it in front of me, turn to page 319, you'll see that that study was private pensions only. So that study does not tell us about the mobility of veterans who are receiving military retiree benefits. That study that says people don't move for retirement tax policy was looking at private pensions. That was what the study was. So it's also the case that a recent study of migration from 1940 to 2000 confirms that veterans migrate more than nonveterans. They're used to moving. It's a much easier choice for a veteran to choose to move to another state. Many of the military retirees have security clearances and other relevant experience that position them well for defense contracting work upon retirement. Others bring experience and discipline to that next job. We want to be sure that they stay in Nebraska, not only to build our state's skilled work force but also to grow our population tax base. Colleagues, it's important that whatever proposal advances from the Revenue Committee, our tax policy includes military retirees who have already made a commitment to Nebraska. With that, I'm happy to answer any questions you may have. [LB267]

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SENATOR GLOOR: Thank you, Senator Crawford. Questions? Senator Scheer. [LB267]

SENATOR SCHEER: Thank you, Senator Gloor. Senator Crawford, your alternative to, what would be the average, again, the average retirement for a service person? [LB267]

SENATOR CRAWFORD: Well, it depends on what...on the grade you are... [LB267]

SENATOR SCHEER: I know, the rank and... [LB267]

SENATOR CRAWFORD: ...and that you...what you retire with. So people behind me will probably be able to answer that much more readily than I will. The fiscal note... [LB267]

SENATOR SCHEER: Well, I'm assuming, okay, let me... [LB267]

SENATOR CRAWFORD: Yeah. [LB267]

SENATOR SCHEER: But it... [LB267]

SENATOR CRAWFORD: The fiscal note provides a couple of good examples of... [LB267]

SENATOR SCHEER: Okay. [LB267]

SENATOR CRAWFORD: ...what that looks like to, you know, two different cases of a retiree. [LB267]

SENATOR SCHEER: But it, without exception, would be much greater than \$10,000 a year. [LB267]

SENATOR CRAWFORD: Some are but not necessarily. So are you asking why the exception? Oh, I'm not supposed to ask you a question. Never mind. (Laugh) [LB267]

SENATOR SCHEER: Well, you can...well, no, that isn't necessarily why I was asking. But...and more the thing that I found unusual about alternative two was in your introduction saying that most retirements are at 42 or 44 or whatever. This doesn't kick in till 62. And if we're trying to maintain them in Nebraska, that seems like quite a lag time to put something into effect to entice them to stay. [LB267]

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SENATOR CRAWFORD: Right. Thank you, that's...thank you for that question. I appreciate the opportunity to clarify. So the economic development incentive that gives you a credit dollar for dollar for contributing to the economy, that kicks in right when you...that kicks in right away. So if you're new it kicks in, or if you're already here it kicks in for 15 years. So that you get for 15 years depending on when you start. So when you turn 62 then--this is another alternative--when you turn 62 you may be in the situation where you're just being protected if your income is very low. However, if you are 62 or 63 or 64 and still contributing to the economy and you haven't used up your 15 years, you can still get the other tax exemption. So unlike what we passed last year, you don't have to choose at the beginning. You just use the one that makes the most sense for your experience in that year. [LB267]

SENATOR SCHEER: Well, but according to this, you can't utilize both methods. You can only... [LB267]

SENATOR CRAWFORD: In the same year, so. [LB267]

SENATOR SCHEER: Okay, so both are...both available but you cannot utilize them... [LB267]

SENATOR CRAWFORD: Correct. Correct. So what we passed last year, you had to pick at the beginning: I'm going to take it now or I'm going to take it later. [LB267]

SENATOR SCHEER: Uh-huh. [LB267]

SENATOR CRAWFORD: This policy is one that says in each individual year you have the choice of which one applies to you. [LB267]

SENATOR SCHEER: Okay. Thank you. [LB267]

SENATOR CRAWFORD: Thank you for the question. [LB267]

SENATOR SCHEER: Thank you, Senator Gloor. [LB267]

SENATOR GLOOR: Senator Schumacher, do you have a question? [LB267]

SENATOR SCHUMACHER: Thank you, Senator Gloor. Right after you filed this bill, I began receiving calls from policemen,... [LB267]

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SENATOR CRAWFORD: Sure. [LB267]

SENATOR SCHUMACHER: ...firemen. I've yet to receive from teachers and farmers, but I know that they are probably watching closely. If this is taken seriously, they will be in line. How do we say to them, hey, guys, your retirement income we're going to tax but the military retirement income, even for people who have never left the country, never left the security of a domestic base we're going to treat specially? [LB267]

SENATOR CRAWFORD: Well, Senator Schumacher, you would be welcome to introduce that bill to address those constituent concerns. (Laugh) So... [LB267]

SENATOR SCHUMACHER: And then, if they realized what was going on, there would be phone calls from the younger people saying, why are you hanging us? (Laugh) [LB267]

SENATOR CRAWFORD: So in terms of a logic behind that, where that line is drawn, part of it is that expectation that veterans are a much more mobile population and much more sensitive to tax policy in terms of where they locate. But I'm not going to deny that there could be arguments made for other people who sacrifice and retire fairly early in terms of our fire and police. But that's not the bill before us today. [LB267]

SENATOR SCHUMACHER: So the veterans, because they're less rooted here, they should receive something a little different than the people who are more rooted here. [LB267]

SENATOR CRAWFORD: I'm saying the bill before you today is creating it for veterans. And if there are discussions about amending it, that could be a discussion we could have. But the bill before us today is whether this makes sense for veterans. [LB267]

SENATOR SCHUMACHER: But if Santa Claus only has so many toys in his sack, they should get it first. [LB267]

SENATOR CRAWFORD: You said that; not me. (Laughter) [LB267]

SENATOR SCHUMACHER: Okay. Thank you. [LB267]

SENATOR GLOOR: Senator Crawford,... [LB267]

SENATOR CRAWFORD: Yes. [LB267]

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SENATOR GLOOR: ...if you're going to require an annual report for reassessment, did it ever...did it ever cross your mind to build a sunset into this so that if, in fact, that report showed that there wasn't an effect we wouldn't be stuck with as, you know, a problem with unwinding a law that's already on the books versus re-upping for a law that automatically expires? [LB267]

SENATOR CRAWFORD: That's an interesting question. I hadn't considered that but I'm willing to consider that if that's an important issue for the committee. [LB267]

SENATOR GLOOR: But the annual report, if I heard you correctly, the reason for that annual report was in fact to keep track of whether this is accomplishing its goal... [LB267]

SENATOR CRAWFORD: Right. [LB267]

SENATOR GLOOR: ...and should be continued or expanded if the results point in that direction. [LB267]

SENATOR CRAWFORD: Correct. [LB267]

SENATOR GLOOR: Correct? Okay. Senator Sullivan. [LB267]

SENATOR SULLIVAN: Thank you, Senator Gloor. And along those lines, Senator Crawford, was there a reporting mechanism in the legislation we passed last year? [LB267]

SENATOR CRAWFORD: That is a very good question. I do not know. [LB267]

SENATOR SULLIVAN: Okay. [LB267]

SENATOR CRAWFORD: We had one...I mean I don't know if what eventually passed had one or not. [LB267]

SENATOR SULLIVAN: Okay. Thank you. [LB267]

SENATOR GLOOR: Other questions? [LB267]

SENATOR CRAWFORD: I would just add that part of the point of the reporting mechanism is to give that information an impetus we can into policy any year we wish to do so. [LB267]

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SENATOR GLOOR: Sure. Okay. Thank you. I'm assuming you're staying to close? [LB267]

SENATOR CRAWFORD: I will. [LB267]

SENATOR GLOOR: Okay. [LB267]

SENATOR CRAWFORD: Yes, I will. Thank you. [LB267]

SENATOR GLOOR: We'll now move on to proponents. Please. Good afternoon. [LB267]

RENE DREILING: (Exhibit 1) Good afternoon, Senator Gloor and members of the Revenue Committee. My name is Rene Dreiling, spelled R-e-n-e, last name D-r-e-i-l-i-n-g. I'm a resident of Papillion, Nebraska, and I'm here representing the Heartland of America Chapter of the Military Officers Association. We know that the committee will be considering several other pieces of legislation regarding the changes to the Nebraska policies regarding military retirement pay, including three others: LB20, LB454, and LB614. It seems to us that LB267 and the others address and promote changes that would be beneficial to the state's economy. It also appears to put us in a position of having to answer a question of which one we like best. Certainly the other bills have broader appeal and better meet some of the objectives of our organization set before you over a decade ago. Our stated goal is to provide incentive for military retirees to stay in or come to Nebraska and enhance our economic picture and broaden the tax base to the benefit of the state. In many ways, that incentive is much like those offered to companies to remain or move to Nebraska. In the latter case, we recognize the competition of other states and we need to add tax breaks to better our position too. Successful efforts bring jobs and expand the tax base on multiple levels. We believe the same to be true in regard to military retirement pay. Those objectives have not changed and we thank the Legislature and this committee for recognizing the benefits and...of exempting military retirement today in Nebraska. And your action in the last session, while limited, was a welcome sign. We further appreciate the attention...the continuation of the attention to this subject by Senator Crawford and other senators who have introduced similar legislation for later discussion. However, in the event that the Legislature chooses not to enact any of the other bills cited, we believe Senator Crawford's LB267 is an acceptable and reasonable way to motivate our military-age retirees to remain in this state on which the current legislation falls short. Why focus on military retirees? Simply put, they represent a well-educated, relatively younger demographic, the vast majority of whom will be seeking a second career. They possess a variety of employment skills applicable to the civilian work force, including in some cases entrepreneurial ambition. We are at a competitive disadvantage when recruiting retirees, military retirees, and other transitioning service members. Military members, as you've heard, are a nomadic group as a result of their chosen profession. When looking for a place to settle with their families at the end of their military career and beginning their second

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career, many elements end up playing a role. It's no surprise that take-home pay is certainly one of the most influential factors in determining where the household will be established. Nebraska has trouble competing on that issue. As you know, and this figure may be different because of listening to others, nine states do not have a state income tax at all, and some of the states are our neighbors. There are 19 other states, including some of our other neighbors that exempt all or a portion of military pay. Rather than reducing the tax base as a result of tax exemptions, this group has a high potential for providing a return on that investment by being productive citizens of our state rather than one of our neighboring states whose tax policy is more favorable. The increased disposable income generated as a result of the implementation of LB267 and/or others will generate benefits at the local and state level through a multiplier effect of consumer spending that would otherwise not be in our state. It's fair to assume that most or all of the tax dollars saved by that family will be spent on food, clothing, housing, entertainment, etcetera, mostly or all in Nebraska. We expect that result when we offer incentives to companies to come to Nebraska. We should have similar expectations when we incentivize individuals who live and work here. Transitioning military members are a valuable resource for our community and state. Attracting them and keeping them is just good business. States have found a way through tax policy to add them to their population and seem very pleased with the outcome. Having their state on the list of locations granting some tax incentives relating to military retired pay is an attraction that brings results. While not a perfect solution, LB267 offers a well-defined incentive for retiring military members to accept a job or a business start-up opportunity in Nebraska. And we embrace it as a possible positive step in expanding and improving our work force and our overall economic future. We urge your favorable consideration for LB267 and thank Senator Crawford for sponsoring it. I thank you for your allowing me to speak to this committee regarding it. I'm open to any questions. [LB267]

SENATOR GLOOR: Thank you, Mr. Dreiling. Thank you for your service. [LB267]

RENE DREILING: Thank you. [LB267]

SENATOR GLOOR: Let me ask you, and it's sort of a follow-up comment, maybe question of Senator Schumacher's. We ended up, after we adjourned, getting phone calls, "we" being almost all the senators, from different groups, if not volunteer firefighters then retired military of ten years who were concerned about the fact that we seem to be disrespecting them. And it's sort of a conundrum that on the one hand we're respecting one group of military and we're disrespecting another group of military. So it was, I think, a challenge for us to field those questions. But your association believes very strongly that this will in fact result in retention of highly trained people in this state to promote economic development. [LB267]

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RENE DREILING: Yes, that's...that is...when we started this 12 years ago, coming down here and testifying on this, our primary has always been economic development. It's securing more jobs and attracting companies here and in a lot of cases that pertain to supporting the base. And some of those companies have had trouble recruiting employees that had the right background. I mean some...a lot of them required security clearances; some of them didn't. But a lot of them with that military experience, they're looking for that and they're trying to fill that. And I guess it's a fact of life, in some military headquarters nowadays it's really coming down to what are you doing on the computer to work the various problems, and those computers can be picked up and moved to another state if they have trouble recruiting. [LB267]

SENATOR GLOOR: Sure. Your association, your group in particular would sort of have your ear to the ground, I would think, more so than most others. So has there been a buzz as a result of last year's administration that there are people now who are moving towards retirement in the next year or two and are saying, and Nebraska is going to be a place for me to consider now because of this legislation? I mean I...it's too soon to be able to do a roll-up... [LB267]

RENE DREILING: Yeah, it's... [LB267]

SENATOR GLOOR: ...of a lot of numbers but... [LB267]

RENE DREILING: It's probably too soon. I don't think...I don't think there were a lot of people impressed with the legislation last year. They looked at it as somebody opened the door and slid through and that's it. [LB267]

SENATOR GLOOR: Okay. [LB267]

RENE DREILING: And it's hard to say for sure because it is very limited. But,... [LB267]

SENATOR GLOOR: Yeah, fair answer. [LB267]

RENE DREILING: ...to be honest, I've heard, and when we started this 12 years ago I probably heard the same thing, phone calls. I got phone calls from places in the state I had never been to. (Laugh) They still come. [LB267]

SENATOR GLOOR: Sure. Sure. Other questions? Yes, Senator Harr. [LB267]

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SENATOR HARR: Thank you, Chairman Gloor. So if I am, let's say, an MP, which is military police, I retire with a background in law enforcement. If I am someone else, civilian police, I will have had the same background in law enforcement. The only difference is...and maybe you can tell me the difference, but the only difference I see as a civilian is that, one, we would say, okay, your pension is taxed; the other one we'd say your pension is not taxed. How do I justify that to my constituents? [LB267]

RENE DREILING: There you're giving me one specific person, a military policeman and a regular policeman. That's hard to do. We're looking at it generic, all across the board,... [LB267]

SENATOR HARR: Okay. [LB267]

RENE DREILING: ...trying to retain people and get them to come here and stay here. That's a tough one. I can give you other examples... [LB267]

SENATOR HARR: Okay. [LB267]

RENE DREILING: ...that I had in previous years if that helps you to decide. [LB267]

SENATOR HARR: Okay. Well, let me ask you this. I'm a military teacher. I teach at a military academy. And now I'm a retired professor from Creighton. One would have a pension when they get their second job, would be pay taxed. [LB267]

RENE DREILING: Uh-huh. [LB267]

SENATOR HARR: The other wouldn't be taxed. How do I justify that to my constituents? [LB267]

RENE DREILING: You talk about right when the military person retires. [LB267]

SENATOR HARR: Yes. [LB267]

RENE DREILING: If you want to keep them here, that's the whole object, is to keep them here so they can take another job because otherwise they will leave. [LB267]

SENATOR HARR: Okay. [LB267]

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RENE DREILING: A lot of them do. [LB267]

SENATOR HARR: Do you see what I'm getting at though... [LB267]

RENE DREILING: No, I understand. [LB267]

SENATOR HARR: ...is there are people who work in the private sector that we invest a lot of time and money in, as Nebraska taxpayers, that we want to retain. Retirees, there's a bill just before this, a bunch of retired teachers came down and said, heck, we could leave. And they could. And you know, I look at Tax Foundation and, you know, they don't care one bit if we give exemptions for military or for teachers or for firefighters or for police officers. And by the way, I have one for tax exemption for police officers. I see the importance they play in our society. And I'm looking to say how do I defend that when I am in your seat,... [LB267]

RENE DREILING: Understand. [LB267]

SENATOR HARR: ...in a couple of short weeks. But my question I guess is why wouldn't we just broaden the base and lower the rate? Gosh, the Foundation sure loves that. How do we...you know, when we make these certain exceptions for certain industries, it makes it difficult. You know, we're picking winners and losers because we still have, on the other side of the equation, a fixed cost. So what we've done is it's a tax shift. And, look, I love our military. I think they do great stuff. But you know what, I love my accountants. And when I go to pay my taxes, I think he does...she does great stuff, and I sure as heck don't want her to leave the state either. And so I always...and I don't know the answer to this so I'm not being flippant, but I don't know. I mean I guess, you know, what do I look to as a list to, yep, this profession deserves a checkoff or a tax deduction or tax break, and this, you know, other than lawyers, I can understand that. We can just go ahead and tax them. (Laughter) But who else do we go? You know, how do I decide who gets it and who doesn't? [LB267]

RENE DREILING: It's difficult. I understand the dilemma you're in and I can interject some other things that I'm not a total expert at but I've heard enough about it... [LB267]

SENATOR HARR: Good. [LB267]

RENE DREILING: ...and one of the factors, whenever there's a BRAC on base closures,... [LB267]

SENATOR HARR: Yeah. [LB267]

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RENE DREILING: ...is how is it...how is the state related veteran friendly. And that plugs in there, too, though we don't emphasize in our testimony. We believe there's an economic benefit to keeping those people here. [LB267]

SENATOR HARR: And you've heard of the Monterey plan? Have you ever heard where the city of Monterey, to keep the School of Languages open, worked very diligently with the base to say, okay, how can we share services so we can lower the cost of that base where it is? Because the government is as much or more concerned about, federal government, how do we make that base there as cheap as possible,... [LB267]

RENE DREILING: Understand. [LB267]

SENATOR HARR: ...as opposed to what do our officers, while important, retired officers pay in taxes, because they're retired at that point. And they can, as you say, they don't have much investment in the area where they are because they do move around a lot. You know, how do I say to someone, you're well invested in this area and thank you for that, but this person who moved in 6 months ago, they're now retired, we want them over you who have lived here 60 years? It's just...it's very difficult to go back and make some of these justifications. And when you knock doors, believe you me, we hear that. [LB267]

RENE DREILING: Oh, I know. I totally understand. It's not... [LB267]

SENATOR HARR: So thank you for coming down here. I appreciate it. I just wanted to make aware and on the record some of the issues that we face. And I appreciate your time and I do appreciate your service to this country. [LB267]

RENE DREILING: You bet. Thank you. [LB267]

SENATOR GLOOR: Senator Scheer. [LB267]

SENATOR SCHEER: Thank you, Senator Gloor. Real quickly, in just relooking at your testimony, you're here supporting LB267, but you also note the other three bills, and although you, if I'm reading it correctly, this isn't your druthers. So of the three or the four, which one is the druthers? [LB267]

RENE DREILING: Well, I mean if you had to choose, you're going to choose... [LB267]

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SENATOR SCHEER: That's what I'm asking. [LB267]

RENE DREILING: ...you're going to choose...you're going to choose the one that's going to give you the biggest benefit. [LB267]

SENATOR SCHEER: And not (inaudible). [LB267]

RENE DREILING: I mean that's what it is. But we realize that when... [LB267]

SENATOR SCHEER: No, I'm not asking you what you realize. I'm just asking you, of the four... [LB267]

RENE DREILING: Okay. Understand. [LB267]

SENATOR SCHEER: ...which do you like the best? [LB267]

RENE DREILING: Yeah, Understand. Understand. I don't have the number. Whichever one has the biggest benefit. I'd have to go look. That would be the one that people would figure would be the most incentive and I'm not briefed on those because I'm not going to be here for that next week. Let me see if I can find the one for it. [LB267]

SENATOR GLOOR: The problem may be we don't have fiscal notes. [LB267]

RENE DREILING: I think it's Senator Krist's bill. That would be the one that would probably be the most favorite, in general, by everybody. [LB267]

SENATOR SCHEER: Okay. Fair enough. Thank you. [LB267]

RENE DREILING: That's...it's easier by Senator than by the number. [LB267]

SENATOR SCHEER: Okay. [LB267]

SENATOR GLOOR: Senator Schumacher. [LB267]

SENATOR SCHUMACHER: Thank you, Senator Gloor. And thank you for your service. [LB267]

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RENE DREILING: Thank you. [LB267]

SENATOR SCHUMACHER: I think in the Planning Committee we heard testimony that Nebraska's cost of living was 9 or 10 percent less than the rest of the country; that there's been...of course, you can find anything you want on the Internet, but there's been quite a few studies, rankings, whatever, that show quality of life, law enforcement, security, all those kind of things are really comparatively very good in Nebraska. Don't have to worry about paying for private education because the school system generally is in really pretty good shape. And do those things count for nothing? Is the only thing the 6.84 percent income tax that makes a difference to people? When do we get credit for the good things that we have that other states don't have? [LB267]

RENE DREILING: There are good things, Senator, although I have to disagree with some of those studies because I just retired from my job now, I was the deputy county treasurer at Sarpy County, and we are evaluating everything. And mentioned earlier in the previous bill talking about property tax, property tax here is outrageous. Our daughter and her husband live in Utah in a--he's an engineer with Boeing--a \$300,000 house and their taxes are \$2,000. Our house is two-thirds of it and my tax is \$4,000. So that is a factor right there. That's a big factor. And my wife does more of the shopping because my son is in Denver right now and he says, well, it's high here and it's low there. Utilities are great here. That's a good price. That's super. It's probably the best in the country. Grocery store, some places don't tax, some do. It's like you got to watch. You got to look what you're doing. You got to be a smart shopper. So when you look at everything, you got to see where you're going to live. And those are the factors I think that cause movement. It's not just taxing retirement. It's everything else when you combine them all together. And when we started working on this 12 years ago, I mean we were getting e-mails and correspondence from people who said, I just moved out of the state and gave myself a \$10,000 raise because the combined effect of exemption on retirement, lower property taxes, and various other things made it worthwhile. [LB267]

SENATOR SCHUMACHER: The property tax example you just talked about from \$3,000 to \$2,000... [LB267]

RENE DREILING: Yes. [LB267]

SENATOR SCHUMACHER: ...between here and Utah, now on that tax, that's a deductible tax,... [LB267]

RENE DREILING: Uh-huh. [LB267]

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SENATOR SCHUMACHER: ...so maybe you're in a 30 percent tax bracket, that roughly...let's just call it, for easy figuring, \$100 a month, is now we're down to...take the 30 percent federal tax that you would save by paying...because that's deductible on the state level, be down to \$70 a month. Apply that toward the things like your 10 percent lower cost of living; utility rates; not having, if you got kids to worry about, finding parochial or...parochial or private schools. That \$70 a month doesn't go very far when you offset it with all those other positive benefits that are often not listed in these analyses that just simply put on the blinders of tax. [LB267]

RENE DREILING: Having moved around a lot, sir, my kids had the opportunity to go to multiple schools. Schools here were good. I was in Alabama for a year and everybody says the schools are terrible there, and yet the school in Alabama found out our son had a reading problem. They were a great school. Never would have expected it in Alabama. I mean we have been at different places, and I'm not saying that schools aren't good here, but there are other states that have good schools too. There are other states that have various things. Now the best part about Nebraska is it's a great place to live. You get a lot of friends, they're very friendly. There are some states that that's a nonmonetary thing that I wouldn't move for because they're not friendly. They're just...they're in their own little world. But I mean we've looked at all things because our granddaughter, who we...she's seven and we talk to her weekly and she keeps asking, when are you moving out here? And we've looked at everything, at all the different states to see, you know, what the total cost of living is. That's why I sometimes don't...these studies that come out, I mean I look into them and, okay, well, they're not considering this part or not considering that part. And then they make a statement. I can't say that Nebraska is the tenth worst in taxes, but it's not the tenth best. It's somewhere in between, is my opinion. [LB267]

SENATOR SCHUMACHER: Thank you. [LB267]

SENATOR GLOOR: Other questions? Seeing none, thank you, Mr. Dreiling, and you should know the early testifiers are usually the ones that get the full sermon. (Laughter) So thank you for... [LB267]

RENE DREILING: That's okay. I've been down here before. I understand, sir. [LB267]

SENATOR GLOOR: Thank you. [LB267]

RENE DREILING: You have a good day. And thank you all. [LB267]

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SENATOR GLOOR: And for the committee's...as a follow-up to Senator Scheer's question, I would guess that Senator Krist's, it's an exemption on both military pay and Social Security. So I think that's the larger ticket bill that's out there. Good afternoon. [LB267]

PATRICK JONES: Good afternoon. I'm a retired Lieutenant Colonel, Patrick L. Jones of Bellevue. I go by Pat. I originally came to just listen and support this bill and Rene. However, in listening to this plus questions in the previous session, I got a sense of some of the question's drift. [LB267]

SENATOR GLOOR: Excuse me, Mr. Jones. Did you spell your name? [LB267]

PATRICK JONES: I apologize. [LB267]

SENATOR GLOOR: That's all right. I missed it myself, so. [LB267]

PATRICK JONES: J-o-n-e-s, Jones. [LB267]

SENATOR GLOOR: Thank you. And did you have a testifier sheet? Good. [LB267]

PATRICK JONES: Yes, I did. [LB267]

SENATOR GLOOR: Thank you. We're squared away. Thank you. [LB267]

PATRICK JONES: Yeah. And if I talk with a little bit of accent, I apologize. I actually, when I was stationed at the base, was corresponding with the Pentagon several times and they thought I was saying J-o-h-n-s, and I said, no, you know, like Smith, a common name. And three times I got letters back addressed to Colonel Smith. (Laughter) And until I became a Husker fan, people would say, you sound like you're from Texas or Oklahoma. And I'd say, oh, I'm about 18 miles north of the Red River. And of course, the famous Red River that keeps flooding saved me. They didn't press on. Anyway, as I was saying, in listening to the questions that you all were asking, I got a sense of some of the reasons for those. Obviously, your job is to do the best for Nebraska and its citizens. And you're concerned about the revenue that has to be raised to support everything that's done in this state. And you're concerned about the lost revenue that might come from giving the military a tax break. I would like to toss something else out on the table. Those who have advanced business degrees, those who have been successful in business, know the term "cost of lost opportunity." I say to you that many...while your Revenue Department can probably give you a figure of the tax dollars from military retirees, what we know, those of us who still live here, can name names. I didn't come prepared with a long list of names, but I could always

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get you one, of people who have left for that reason. Bill Fitzpatrick left this month, retired Colonel, lived in Plattsmouth; wife retired here. They decided they could make a lot more money and go to Texas where they didn't have to put up with the winter. Savage (phonetic) went out to Nevada. Myself, my kids live in Texas and they're hounding me to death to move down there. And my son says, Dad, you'll make \$8,000 more dollars. We don't have state income tax here. Why are we here? Well, first, my wife followed me around the military. You've heard the term about all the moves. We moved ten times during my career. My wife always got shortchanged on her careers and stuff that she wanted to do. When I got here, I managed to stay here for a while and she got employed in the school district and wanted to finish her own retirement. So we stayed. The day I chose to do that, I lost my Texas residency and started paying Nebraska taxes. I'd forgotten about that in the argument with her. (Laughter) Anyway, it's a win-win. If you make the military retirees want to stay here, you'd have a lot of them that go through Offutt Air Force Base and get them to stay here, because everybody loves the schools. Everybody loves the good community and the relatively safe life in most of the state and all the good things about it. Stop and think a moment. Every officer has a minimum of a bachelor's degree and 78 percent of them have advanced degrees. And a huge number of enlisted retirees all have degrees. We believe in education. We support education. That's why I served on the Bellevue School Board 16 years, because I believed in education and wanted to help it be better. Background checks: Every military man that's made a career has had multiple background checks to show continued trust in the trustworthiness and honesty and service of that individual. And physicals: Every military man gets multiple physicals. Preventative medicine is a number one iota. What is the largest growing segment of your budget? I think I've read in the paper that Medicaid is. Military retirees aren't going to affect that. We have our own military retirement, health plans and stuff that take care of that. Plus, we're a proven better physical shape to start with. I wanted to say a couple of other things too. Is that...why the military over the others? Well, that's a very strong concern. My wife, being a retired school teacher, would probably stand and clap for the education person that was here in the earlier session. However, she recognizes the fact that if it's going to start, it's got to start somewhere. And the military has so many proven things that I've already run across that the others don't have. And I think if you keep more military here, make us want to stay here, that most of us have decent retirements. I went into private business afterwards and finally sold that off. And we contribute to the economy because...I know, I got to quit. All right. But anyway, I wanted to point those things out. And a BRAC is coming and it's going to be very tough with what's going on, on the sequestering and everything. One more thing that would make it look better to keep the base open would be to take a step in this direction. Thank you. Any questions? [LB267]

SENATOR GLOOR: Thank you. Senator Brasch. [LB267]

SENATOR BRASCH: Thank you, Chairman Gloor. And thank you, Colonel Jones. Thank you and God bless you for your service. When I say we are the land of the free because of the brave,

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I mean it. And I can think of many, many, many reasons why, you know, and I felt bad for you trying to justify, you know, how good our military are, because it's obvious, you know, they are. They make a lot of sacrifices lifelong and especially those who retire here. A couple years ago I had a business flight I took and sat next to a good, old-fashioned, Nebraska boy soldier who made his career but is coming home to see Mom in the retirement home. He, too, chose Texas and he explained to me why Texas. They don't tax you on active duty with your income tax. They don't...you know, he went through his list. I do believe that, you know, we are working as a state to try to become more tax friendly in so many areas, and I see we have different tax vehicles: the income tax, sales tax, property tax, corporate tax. And we just kind of have to get in line and move things. And we tried last year doing some changes, we hope for the better, for our military, honoring our veterans, those who are disabled. My concern, though, is at this point, now, we just heard the property tax issue is resonating across the state, across the nation. Utah is saying get out of there; you know, you'll save and you'll save. [LB267]

PATRICK JONES: My son has the exact car I do. His tax on his car is half of mine. [LB267]

SENATOR BRASCH: And so when it comes to tax issues, when you make a priority list of I have X amount of dollars and I have ten children (laugh) who all would like to have a little something special this year, what would that be? [LB267]

PATRICK JONES: Well, as I said, that's why I got the sense of those kind of concerns in those first few questions. And that's why I wanted you to consider the lost opportunity costs, because right now those of us who know the retirement community see how many of them are leaving and you're losing them. You lost Bill Fitzpatrick's retirement pay. You lost his wife's retirement pay and his, you know, taxes, of course, and he's moved to Texas. Savage (phonetic) went out to...both he and his wife, same way; you lose theirs. Now that my wife is retired, I can still support the Huskers, by the way, when visiting with our son during the bowl game and the Husker big fans had a great big deal in Austin, Texas, and we went to that. So we can cheer the Big Red on even if we're not in the state. But you need to think of the lost opportunity. I understand you don't want to lose the money, but I think you will retain and make more money if you get more of us to stay here, like my wife and I, who like our home. It's not the best but we like it. We don't particularly want to move. But every year winter comes and our kids are reminding us how cold it is and also, Dad, you'd make an extra \$8,000 if you come down here. Well, that \$8,000 will pay for a cruise in the Caribbean, you know, so why don't we go? We're getting closer and closer to making that decision. And there's a lot of us. The military organization that we belong to, I'm their Web master and their newsletter guy. I do over 500 of those and I'd be willing to bet you 90 percent of them feel very similar. I mean I can't prove bet, but... [LB267]

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SENATOR BRASCH: I understand. [LB267]

PATRICK JONES: ...I'm going to meetings all the time. So you need to think of the lost opportunity cost. [LB267]

SENATOR BRASCH: But I want to assure you, it's not that you're not deserving. And I do understand that you have the wherewithal and the mobility to move. You can pick up your assets and take them elsewhere and truly it's beyond your dollars that we would lose. It's the character, the integrity, the skills. But we also need to look at those who just can't pick up and go. You know, how do we serve everyone when someone is not...doesn't have the wherewithal, cannot say see you later? It's, I'm just going to have to tough my way through this, you know, come what may. [LB267]

PATRICK JONES: Well, I'd come back one more time. If you keep us here, you make more money and can afford to help those others someday. That's the hard job you all have. [LB267]

SENATOR BRASCH: Well, I do appreciate your coming here... [LB267]

PATRICK JONES: Okay. [LB267]

SENATOR BRASCH: ...and your service and that of others here today. And we have some very difficult things to do and I'm just...it's all going to be moving parts, I believe, that hopefully... [LB267]

PATRICK JONES: Uh-huh. Okay. [LB267]

SENATOR GLOOR: Thank... [LB267]

SENATOR BRASCH: Yeah, thank you. Thank you, Chairman Gloor. [LB267]

PATRICK JONES: Thank you. [LB267]

SENATOR GLOOR: Thank you,... [LB267]

PATRICK JONES: Thank you. [LB267]

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SENATOR GLOOR: ...Mr. "Smith" Jones. (Laughter) Other proponents? Good afternoon. [LB267]

JENNIFER CREAGER: (Exhibit 2) Good afternoon, Chairman Gloor, members of the committee. For the record, my name is Jennifer Creager, J-e-n-n-i-f-e-r C-r-e-a-g-e-r. I am the director of public policy for the Greater Omaha Chamber of Commerce. The chamber is offering its support for LB267, and we thank Senator Crawford for bringing this to your committee. I am sharing with you right now a letter from our president and CEO, David Brown. He's out of the state today and couldn't be here. It outlines our reasons for our support of this bill. We have long supported bills such as these and it's especially important, and in light of a lot of your comments, it cannot...the effect of Offutt Air Force Base cannot be overstated to the...for the importance to our region. We are aware of the upcoming BRAC activity. We certainly don't want to be in the position of picking winners or losers, but many believe BRAC is on the horizon for us. And we know that BRAC committees in the past have taken a look at state policies on taxation. I've also spoken with Bruce Bohrer from the Lincoln Chamber of Commerce. He's unable to be here today. He did authorize me to express the Lincoln Chamber's support of the bill as well. I can let the letter from David speak for itself, and I thank you for your consideration. And I know it's late in the day so that's all I'm going to say. [LB267]

SENATOR GLOOR: Thank you, Ms. Creager. Will the Omaha Chamber be back for each of the four bills? [LB267]

JENNIFER CREAGER: I think that is the plan, yes. [LB267]

SENATOR GLOOR: Okay. [LB267]

JENNIFER CREAGER: We're a little bit agnostic as to which approach the committee prefers. We just think the concept in general is good. [LB267]

SENATOR GLOOR: Understood. Other questions? Senator Schumacher. [LB267]

SENATOR SCHUMACHER: Thank you, Senator Gloor. Thank you for your testimony today. Draw the relationship between whether a state taxes retirement income of past employees and the closing of a base. [LB267]

JENNIFER CREAGER: Well, I can only speak situationally because the situation we're facing right now is Iowa has decided to exempt all retirement income. [LB267]

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SENATOR SCHUMACHER: And that does...how does that... [LB267]

JENNIFER CREAGER: For us, it's a competition issue. I mean especially the Highway 34 bridge. We have people who maybe like living in the area, in the Sarpy County area, Plattsmouth area, but they can live a half-hour away and still access benefits that they're... [LB267]

SENATOR SCHUMACHER: But that has nothing to do with base closing. I mean if I'm sitting in the Pentagon... [LB267]

JENNIFER CREAGER: True. [LB267]

SENATOR SCHUMACHER: ...and I'm trying to figure out am I going to close this base, why do I care where my ex-employees live? [LB267]

JENNIFER CREAGER: Right, and I apologize. Those are two different issues. I just know that in previous BRAC rounds and according to...the chamber has retained a consultant on BRAC, the upcoming BRAC rounds, that they...part of their consideration on whether or not to close a base has included income tax policy in the states where the bases are located. [LB267]

SENATOR SCHUMACHER: Now do servicemen pay on their, while they're in the service, income tax to Nebraska? [LB267]

JENNIFER CREAGER: I don't know the answer to that. [LB267]

SENATOR SCHUMACHER: Okay. [LB267]

PATRICK JONES: Only if you're a resident, otherwise (inaudible). [LB267]

JENNIFER CREAGER: Should I repeat that for the record since it wasn't on the microphone? [LB267]

SENATOR SCHUMACHER: I suppose you could for the record. [LB267]

JENNIFER CREAGER: What did you say? [LB267]

SENATOR GLOOR: Go ahead if you want to repeat it. [LB267]

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JENNIFER CREAGER: I just didn't want to mischaracterize it. [LB267]

PATRICK JONES: What I said is (inaudible). [LB267]

SENATOR GLOOR: It's state of residency. [LB267]

PATRICK JONES: He asked (inaudible) pay Nebraska tax only if they're a resident. (Inaudible) military (inaudible) anywhere in the world (inaudible) pay their home state. [LB267]

JENNIFER CREAGER: So it's dependent on residency. [LB267]

SENATOR SCHUMACHER: Now in those BRAC studies, do they look at other factors besides taxes? [LB267]

JENNIFER CREAGER: Absolutely, Senator, yes. [LB267]

SENATOR SCHUMACHER: Okay. Thank you. [LB267]

SENATOR GLOOR: Senator Scheer. [LB267]

SENATOR SCHEER: Just for point of clarification though, but I do believe when the servicemen are...go into the service, they get to choose the state that they choose to have as a resident state. [LB267]

PATRICK JONES: State that you enter as your home of residency and you're training somewhere else (inaudible). If you get assigned here and you want to make it your residency, you can. [LB267]

SENATOR SCHEER: Okay. So if you're transferred... [LB267]

SENATOR GLOOR: If we're going to get into this, we're going to have ask somebody to come back up. [LB267]

JENNIFER CREAGER: (Laugh) Maybe I should move out of the chair. [LB267]

SENATOR SCHEER: No, that's fine. [LB267]

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SENATOR GLOOR: Okay. [LB267]

SENATOR SCHEER: I guess my point was I do believe there's many opportunities that they can change that place of residency that would avoid those home state taxing proposals. I don't think it's an either/or at one point that you have to choose your point of residency. I think you can choose that as you are moved around. So if you happen to end up in a state that is not one that charges a state income tax, you can declare a residency in that state for the remaining portion of your term if you so choose. [LB267]

SENATOR GLOOR: I think that's correct. But since this is the last hearing, I think Mr. Jones could probably... [LB267]

SENATOR SCHEER: (Inaudible) so I apologize. [LB267]

SENATOR GLOOR: No, that's...I think Mr. Jones would be glad to tutor you, if you what you said was wrong, at the end of the hearing. Thank you. [LB267]

JENNIFER CREAGER: Thank you. [LB267]

SENATOR GLOOR: Other proponents. [LB267]

JEROME RICHARDSON: Feel like I'm sitting on the hot seat. Good afternoon. My name is, for the record, J.R. Richardson, Jerome Richardson, J-e-r-o-m-e R-i-c-h-a-r-d-s-o-n. I would like to thank Senator Crawford for her courage to ask somebody like me to come up and speak. I'd say it's because I was an Amway salesman when I was younger or it could be because I spent 18 years or, as it equates in dog years, almost 130 years as a military recruiter. I can't help but take some exceptions to a question that was asked when we compared a law enforcement officer to a military member. I don't think that anybody questions whether a profession that somebody chooses to go into is honorable or not. And when it comes to a profession, I think being a teacher, being a farmer, working at a grocery store as my brother has who's now a director of Hy-Vee, who I've watched him spend 27 years working as hard as a person can and love his communities that he's lived in and served those communities with truly a helpful smile, not for the advertisement but. So it's not a matter of one profession being more important than the other. And I can tell you stories that will tell you the absolute differences and I'm only going to share one with you of the many, because I have a special operations background. I've been in the 919th Special Operations Wing, which was the most deployed wing in the United States Air Force after the attack of 9/11. My son activated and went on his first of three deployments to the war at a unit, the 442nd Fighter Wing out of Missouri, Whiteman Air Force Base, Missouri, where I was

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the recruiting chief at that time for the entire wing. Two-thirds of our unit was deployed. During...that was his first deployment and I watched a 19-year-old boy come back as a 30-year-old man from the experiences that he had on behalf of our country during these times. He's no different than any other of our sons and daughters. I'm using this as an example of what they do. On his second tour as a Air Force civil engineer, he had to go to Fort Sill, Oklahoma, because he was supporting Army combat operations as an Air Force civil engineer, so he had to go through special Army training in order to be qualified to do that job. During that deployment, he watched his son be born on a video camera. I don't think there's too many police officers that have to say that. During his third deployment, he watched his daughter be born on a video camera. My son spent two extended, long tours in South Korea. You may remember when our B-2 bombers flew over the Korea, North Korea during very heightened situations between our countries. My son was on that border with over a half a million North Koreans on the other side. My son has spent three years in Germany. My son was three days from his last PCS going from South Korea to Dyess Air Force Base, Texas, when he received his downsizing notification, and a young man with 12.5 years of service, a wife back at the states, two children waiting on him, who's going to have Daddy home in three days, that young man had to try to find how he's going to support his family. Now these people that we have, our sons and daughters, our husbands and our wives, they give up a lot of themselves, especially during these times. And there are going to be times where we're going to call and ask for them to come back. As touching as this story may sound, I can tell you as a businessperson, as a person who's created \$120 million in government contracting opportunities for small businesses, that this issue isn't about waving a flag. This issue isn't about what we should do because it's right and wrong and we feel good about helping those that served us. The issue is about economics, because these guys and gals are incredible. They're the ones that come back and start your businesses, that crank your small business engine, that get involved with their community. When I retired from the Air Force, I had to make a decision. After 25 years, living in seven states, I had to decide where am I going to bring my family. I got a job at Bellevue University, my alma mater and where I'm going to receive my second degree Saturday. I chose to live in Iowa. It was an economic decision that my wife, who's an attorney, my wife has been a stay-at-home mom for 16 years so we've been eating pork and beans. We have seven children. But we decided, because we did the math, that we live in Iowa. We're going to contribute to communities on both sides. I'm here to tell you that I've lived in Illinois where there is no taxation of retirement or state income tax. New Jersey, where I own a home, there is no taxation on military retirement. Texas, South Carolina, the list goes on, it can be done and it is worth it because these are the people that right now, as they're separating, like my son, as they're being downsized they're being told, thank you; where are you going to go now? The government is going to pay for their move. Do you want them to move to Nebraska or do you want them to move elsewhere? These are incredible people. They're going to add to your economy. They're going to kick it in the butt and make it grow. They're not any better than anybody else, but we do know they've been tested. Their skills have been honed. Many of them are in the most productive years of their lives. I'd sure want them on my team. Thank you very much. [LB267]

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SENATOR GLOOR: Thank you, Mr. Richardson. Thank you for your service. Are there any questions? Seeing none, thank you. [LB267]

JEROME RICHARDSON: Thank you. [LB267]

SENATOR GLOOR: (Exhibit 3) And I'm going to make note for the record a letter of support that was sent in by Mick Wagoner. He's USMC retired from Omaha, Nebraska. Anyone else as a proponent? [LB267]

DICK CLARK: Senator Gloor, members of the Revenue Committee, my name is Dick Clark, D-i-c-k C-l-a-r-k, director of research for the Platte Institute. Thank you again for the opportunity to testify today, this time in favor of LB267, which would exclude some military retirement benefit income from our state income tax. I'll be very brief. I'll start out by incorporating, by reference, my testimony on LB165 with regards to out-migration and state taxation. I would note, as other testifiers have, that this population, the military retiree population, is significantly more mobile than the senior population in general and probably more mobile than the general population. And I would also note that military publications, that is those with a military audience, do frequently advise service members as to the friendly and unfriendly states for military retirees. While the folks making decisions on where to move out in the general work force may not look at tax rates, I think a disproportionate percentage of military retirees do. I would also note that military retirees are most often working for years after retiring from military service so this isn't just about the dollars they receive in recognition for that service, but it's also about attracting former service members to come here to Nebraska to work, to contribute to the economy. They grow companies, they create jobs, they know how to lead, so let's set a policy that leads them to Nebraska. Thank you. I'd be happy to answer any questions. [LB267]

SENATOR GLOOR: Mr. Clark, a question for you. So if both in terms of Social Security retirement, military retirement this were to come about, it would be the Platte's expectation that we'd see an increase overall in the number of Nebraskans in that...what we're talking about here? [LB267]

DICK CLARK: I think that you would see more of the affected population hang around in Nebraska than you would see otherwise, yes, sir. [LB267]

SENATOR GLOOR: And more Nebraskans mean more Nebraskans who need Nebraska services, including law enforcement and education and all the things that go along with that. Doesn't that result in a higher cost of government? [LB267]

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DICK CLARK: It does, and I would just point out that, of course, the income tax is not the principal source of revenue for the local governments that provide so many of those vital services. And certainly when someone who is retired from the military is, you know, consuming and whatever, you know, type of good or service that they're consuming, if it's taxable under the sales tax code, then that would be a source of revenue for those services. Of course they would own property and pay property taxes. Still would be a variety of ways that they would produce revenue to support those local services. [LB267]

SENATOR GLOOR: Okay. Other questions? Senator Schumacher. [LB267]

SENATOR SCHUMACHER: Thank you, Senator Gloor. What group's income should we not exempt from taxation? [LB267]

DICK CLARK: Well, Senator, I am in favor of a broad-based income tax relief plan, but I'll come up here and testify for tax relief every chance I get, and today is no exception from that. Certainly I'd prefer a broader tax relief plan to this one, if I had to pick one or the other, but I'm happy to come up here today and tell you why it's important to shield this population from excessive taxation. [LB267]

SENATOR SCHUMACHER: And when we implement that broader tax relief plan, bringing in the police and the farmers and the teachers and everybody, where do we get the money from to fund our government? [LB267]

DICK CLARK: Well, as I mentioned to Senator Harr earlier, you know, the number of dollars spent on public services is not a measure that correlates with the quality of those services. The Platte Institute has published numerous studies on ways to reform many of the biggest ticket items in state and local spending, whether that's the Medicaid Program, whether it's the way that we deliver education in our state. And certainly the Platte Institute will continue to offer research on all those policy areas. [LB267]

SENATOR SCHUMACHER: And in what way? There has to be your top three things on reforming the Medicaid Program, since you put that out, and that's where we're going to fund state government from. [LB267]

DICK CLARK: Sure. Well, a study that we put out in the latter half of last year suggested increasing the number of plans within a given region in Medicaid, with the belief that competition between more plans would result in the addition of value-added benefits and more competitive in terms of cost of service delivery. There another...excuse me, a number of other

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reforms in Medicaid that we suggested, a lot of which have to do with eligibility audits, making sure that we're finding the waste, fraud, and abuse that does exist in the system and ferreting that out. We think we can actually deliver better services through the Medicaid Program if we go after a lot of those things. [LB267]

SENATOR SCHUMACHER: Enough to fund broad-ranging cuts in income tax for everybody. [LB267]

DICK CLARK: Yeah. The potential for savings from all the different recommendations that we made in that second Medicaid report last year total in the hundreds of millions, Senator. [LB267]

SENATOR SCHUMACHER: Thank you. [LB267]

SENATOR GLOOR: Senator Harr. [LB267]

SENATOR HARR: Just one quick question: I have a bill coming up to exempt retiree...police officer retirees. Will you be coming in and supporting that? [LB267]

DICK CLARK: I'm not sure that we've made a final decision on that, Senator, but I'll let your office know before the day of the hearing. [LB267]

SENATOR HARR: Thank you. [LB267]

SENATOR GLOOR: Seeing no further questions,... [LB267]

DICK CLARK: Thank you. [LB267]

SENATOR GLOOR: ...thank you. And as relates to Medicaid, long-term care reimbursement systems. [LB267]

DICK CLARK: Thank you, Senator. [LB267]

SENATOR GLOOR: Other proponents? Anyone who wishes to speak in opposition? Anyone who would like to speak in a neutral capacity? Senator Crawford, you're recognized to close. [LB267]

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SENATOR CRAWFORD: Thank you, committee members, for your good questions and your patience, and I appreciate the opportunity to close. And I will focus on answering questions that were raised, so hopefully answer those questions and get that on the record. And I'm happy to try to answer other questions that you may have as well. So first to Senator Sullivan's question: Did LB987 have a reporting requirement? No. Check that. Senator Scheer, you asked about the average retiree pay, so...and I apologize, I didn't have that with me when I was up here earlier. So we have a report from the Department of Defense. As of September 30, 2011, and so looking at that, in terms of all retirees, the average retirement pension is a little over \$26,000. And if you go down to enlisted, it's about a little over \$20,000. So again, as I said, when we put this...crafted this bill, we were trying to craft something that was a modest proposal given other pressures that we knew we would have in the state with corrections reform and property tax relief. So there's nothing magic about the \$10,000 number. If we felt that a lower income retiree, it's likely, it looks it would be around \$20,000 then. And so if it makes sense to change that number from \$10,000 to \$20,000, that's great. So there's nothing magic about the \$10,000 number that's in the policy, nor is there anything magic about the other numbers. It's the basic principle of putting a plan out that provides the option for you to consider a package that would be progressive and/or tied to economic development incentives and/or focused on helping the low-income retirees. It's the principle more than the details that I'm wanting to put on the table for this discussion, so to answer that. Also to answer the question about BRAC, those of you, you may recall, our office sponsored an interim study in 2013 on BRAC and we basically went back to the BRAC study that had been done in previous years and we looked to see where we were on those fronts and what we needed to do in the future. We have very close relationship with the Department of Defense and we talk with the state liaison from the Department of Defense regularly and they do have a checklist. They have a set of policies they're looking for. And so part of our effort in that interim study was to make sure that we were doing well on those studies, on those policies, and we continue to do so. And several of the bills, several of the other bills that we're introducing and that we're encouraging other senators to introduce are bills that matter to the Department of Defense and are part of making our state a friendly state in terms of how we are looked at in Department of Defense. So BRAC-proofing involves many things in addition to this, but this is one of the policies that's on that list. The effort that we made last year moved us from green (sic--red) to yellow, so we did get some credit for what we did. (Laugh) And we also got credit for in-state tuition. I mean so there's several things that we're doing, just step by step, to try to address those policies. Now from an economic development standpoint, think the bread and butter of economic development is to pay attention to the employers that you have in your state now. The economic impact of Offutt Air Force Base in the state is over \$1 billion. Okay? So we're talking a major employer, not just for Bellevue, not just for Omaha metro area. This is a major employer in the state. So it's very important that we take...I think if you have that kind of a major employer in your state, it's a responsible thing to do as a State Legislature to meet with them regularly and ask how are things going and what is important to you, to make sure this is a state that works well for you, works well for your employees. So this is just one piece of that

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and, in fact, we are working on a joint land use study like Monterey in terms of working with city of Bellevue and Sarpy County. And our office is working on that study to say how do we share services to reduce costs. So we are active on many fronts in terms of trying to reduce the probability that we would be "BRACed." So also want to say in the discussion of police retirement versus military, and I'm so sorry, Senator Harr, that you missed the very moving account of that. So I encourage you to introduce yourself to J.R. after this and hopefully he will tell you that story again. I can't. What I'm going to say is not near as moving as what he said. (Laugh) But just a couple of other policy principles that have been discussed in terms of why, why provide this benefit for military retirees, and the one economic argument that is often raised is that when someone joins the military one of the things that happens, as you just heard from one of our testifiers, is that that basically means the spouse of that person does not really get a chance to establish a career and establish his or her pension. So granted, not everyone is married and has a partner, but in terms of what is different about a military family is that that spouse is not able to establish a career and make near as much money as they would have made if they were the spouse of a police officer that was staying in one place, or spouse of a fire person who was staying in one place. So they sacrifice that. They move from place to place. It's hard for them to even finish their degrees. And they have to just reestablish themselves in each place and it's very hard for the family then to have that second pension that's part of their economic package as they get ready to retire. So that's the economic argument, saying that they sacrifice by being willing to move around and so there is not that second income potential that many other people who obviously also sacrifice for the safety of the public, that those spouses have that opportunity to have that income and that pension as well. And the second principle is really a state competitiveness principle, so this is an area where states are competing and we're competing with those states. And in particular, in our case, the state of Iowa is a very heavy competitor, as you just heard from one of our earlier testifiers. It's helpful for a retiree to live near a base, so again, that's another reason why it's important to protect Offutt, because if you live near a base, you get to shop at the commissary and you have other benefits that are from the base. But you can live right across the border and have some of those benefits and still have the benefit of living near a base, as you've just heard. I do want to say that we do get credit for our quality of life. One of the fun things about being the state representative in Bellevue is I get to hear all these stories from people who talk about how they came to Omaha. They heard they were stationed at Offutt and they came to Omaha, many times with their spouses and children, you know, crying and screaming, why do we have to go to Bellevue, why do we have to go to Offutt. But then they get here and they see the quality of life. And I have some families tell me it's the first time they've had their children in public school, so the quality of life matters. And obviously, as we make this choice, it's a tough choice. You have many other choices, you know, other pressures on you as well, and we obviously also have the need to make sure that we're funding education and correcting our prisons and many other priorities. And so those are choices we have to make. I would respectfully say that making sure that we have a tax policy that's competitive for retaining our veterans in our state, recruiting and retaining our veterans is a very

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important economic development policy to have and a very important tax policy for us to maintain. And I appreciate the opportunity to work with the committee as you develop your package, and I urge you to include military tax retirement for those who are already here in Nebraska, contributing to our state, as part of that package. Thank you. [LB267]

SENATOR GLOOR: Thank you. Senator Scheer. [LB267]

SENATOR SCHEER: Just one quick question... [LB267]

SENATOR CRAWFORD: Yes. [LB267]

SENATOR SCHEER: ...if I could, Senator. We went from green, which I thought was good or whatever, and then yellow evidently is better. So what color are we trying to get to? [LB267]

SENATOR CRAWFORD: Oh, it's green, yellow, red. So we were on red before, because we had absolutely no retirement benefits at all. We moved to yellow because we did something. You could move to green if you do more. [LB267]

SENATOR SCHEER: So we want to get to green. [LB267]

SENATOR CRAWFORD: You want to get to green. [LB267]

SENATOR SCHEER: Okay. [LB267]

SENATOR CRAWFORD: The idea is to move all those stoplights to green. [LB267]

SENATOR SCHEER: Okay. All right. [LB267]

SENATOR CRAWFORD: Thank you. [LB267]

SENATOR GLOOR: Thank you, Senator Crawford. That ends the hearing. I would ask the audience, thank you, first of all, for your participation, but this group needs to go into an Executive Session, so we'd ask you to move outside as quickly as you could so that we can have our meeting. [LB267]