MICHIGAN SERA COUNCIL
STATE EMPLOYEE RETIREES ASSOCIATION

March 16, 2011

Honorable Jud Gilbert, Chair
House Tax Policy Committee
House Office Building
Lansing, MI

Dear Representative Gilbert and Members of the House Tax Policy Committee:

The Michigan State Employee Retirees Association, which represents over 50,000 state employee retirees, **opposes those aspects of HB 4361 targeting pensioners and seniors.**

Illegality of taxing state pensions – At the outset we must point out that taxing state-run pensions is unconstitutional. Michigan Constitution, Article IX, Section 24 states: "The accrued financial benefits of each pension plan and retirement system of the state and its political subdivisions shall be a contractual obligation thereof which shall not be diminished or impaired thereby." Attorney General Opinion 6697 of December 18, 1991 held that a change in taxation of prospective members of the public employee retirement systems could be made, but reduction of current pensions was improper unless an equal benefit replaced it. The Governor's proposal does not address this significant legal barrier to taxing public pensions.

The tax proposal - The income tax proposal would affect 4 exemptions or credits affecting seniors. It would:

- Eliminate the exemption for pension income regardless of age;
- Eliminate the dividends, interest, and capital gains exemption of up to $10,058 single/$20,115 joint received by those 65 and over;
- Eliminate the $2,300 special exemption for those 65 and over;
- Reduce the homestead property tax credit for those 65 and over from 100% of the amount by which property taxes exceed 3.5% of household income to 80% of the available $1200 credit.

Increased taxes on seniors - The income tax proposal would increase taxes for pensioners and seniors in the following amounts:

- Elimination of the public pension exemption is estimated by the House Fiscal Agency to increase taxes on public pension recipients by $153 million in FY2012 and $233 million in FY2013. Eliminating the private pension exemption is estimated to cost seniors $459 million in FY2012 and $699.5 million in FY2013.
- Elimination of the investment income exemption for all seniors is estimated to increase taxes on seniors by $35.4 million in FY2012 and $53.9 million in FY2013.
- Elimination of the $2,300 senior exemption is estimated to cost seniors $8.8 million in FY2012 and $40.9 million in FY2013.
- The cost estimate for reducing the Homestead Property Tax Credit for seniors is not available from the House Fiscal Agency's analysis.

Amount of increased taxes on seniors - The total increase in taxes leveled at pensioners and seniors in the Governor's plan is estimated to be $656.2 million in FY2012 and over $1 billion in FY2013. Pensioners and seniors will also be affected by other proposed income tax increases in the form of elimination of exemptions and credits affecting all taxpayers. And we will be affected by the proposed reductions in revenue sharing to cities, many of which support senior centers and other quality of life living standards in the communities where we live.

Business taxes - The Governor's tax proposal eliminates over $1 billion in business taxes in FY 2012 and $1.7 billion in FY2013, with an overall reduction in business tax effort by 86 percent. We do not think that Michigan's business taxes are so high that a massive reduction is needed. Business taxes have been reduced over the last few decades and still Michigan's economy lags. Business tax breaks are no guarantee of prosperity for all of Michigan, especially when configured, as proposed, with no strings attached. The 95,000 businesses that will no longer have to submit a tax returns under the Governor's proposal are not required to create even one job to get this giant tax preference.

We advise addressing the structural deficit in FY2012 and 2013. Delay business tax reform to FY2014 and beyond when the global economy is more likely to lift Michigan's economy out of its doldrums. If there is a need for business tax reform, it certainly should not be imposed in one fell swoop in one year and financed by individual taxpayers alone. Any business tax reform needs to be phased in over several years so that all taxpayers can plan and adjust accordingly.

Public policy reasons for senior tax breaks - The poverty rate of seniors has been significantly reduced in the last 30-40 years because former Michigan lawmakers wisely elected not to tax senior's social security income, and, for those lucky enough to have them, pensions and savings. Medicare also helped lift seniors out of poverty so that most are no longer a financial burden on their children or the community. Now is not the time to turn the clock back and take income away from seniors.

Incomes of state employee retirees - Over 70 percent of retired state employees receive pensions of $24,000 or less. Over 30 percent receive pensions of $12,000 or less. This is according to the Office of Retirement Services Comprehensive Annual Financial Report as of September 30, 2009. Together with our social security and savings, most of us are living on $20,000 to $40,000 a year. The State Employee Retirement Act limits cost-of-living increases to no more than $300 a year, which basically means our pensions are declining in value each year. The proposed pension tax is basically aimed at low-income households on fixed incomes.

Expenses of seniors - We are living so long now that we worry about our money running out and being forced into poverty. Even with cost-of-living adjustments to our Social Security, it doesn't keep up with the increase in the costs of prescription drugs or co-pays, medical needs not covered by Medicare, fuel, utilities, property taxes, and Medicare premium increases. We have long-term care and chore assistance costs others don't have. Our point is that the vast majority of state employee retirees are low to moderate income people with potentially high living costs as they age.

Promises should be kept - We were promised tax-free pensions and made our plans accordingly. It is unfair and unjust to change the tax structure for current pension recipients when retirees can no longer adjust their retirement plans. Most cannot go back to work to make up for the loss of income proposed in this tax shift.

Michigan state employee retirees worked and contributed to the economy in Michigan over many years. We have chosen to stay here in part because of the favorable tax climate and because we love Michigan. Taxing our pensions is going to cause some to move out of Michigan and with them, their contributions to Michigan's economy.

Sincerely,
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Legislative Representative
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