



DAVE ARMSTRONG

STATE REPRESENTATIVE • 75TH ASSEMBLY DISTRICT

Testimony on Assembly Bill 223 June 8, 2021

Thank you for the opportunity today to speak on behalf of Assembly Bill 223.

Under Wisconsin law, Social Security payments are exempt from the state income tax. However, for many years federal employees participated in the U.S. Civil Service Retirement System (CSRS), a separate system that pays a federal pension but is not covered by Social Security. In the mid-1980s, the federal government switched to a new Federal Employees Retirement System, which is covered by Social Security. CSRS participants at the time were allowed to remain in the older system if they chose.

At least 31 states exempt all or part of retirees' pensions, including CSRS pensions, but Wisconsin only exempts a retired federal employee's CSRS pension if he or she was in CSRS as of December 31, 1963. Needless to say, there are few living retirees who qualify for that exemption, and any federal employee who entered CSRS after 1963 and left before the 1984 changeover (or chose to remain in CSRS) is taxed on his or her pension.

The Department of Revenue estimates that there are just under 20,000 CSRS retirees in Wisconsin. Assembly Bill 223 is a commonsense bill that restores fairness by extending the exemption to all CSRS pensions – up to \$8,000 in the first tax year, and then 100% going forward.

The Senate Committee on Financial Institutions and Revenue unanimously approved Assembly Bill 223's companion, Senate Bill 246, last week, and I hope Assembly Bill 223 will receive similar bipartisan support in this committee.

Thank you for your consideration.



Tod Ohnstad

STATE REPRESENTATIVE

June 8, 2021

Assembly Committee on Ways and Means
Assembly Bill 223
Representative Tod Ohnstad

Chairman Macco and members of the Assembly Ways and Means Committee, thank you for the opportunity to provide testimony on Assembly Bill 223, bipartisan legislation to eliminate a tax disparity between retired federal workers receiving social security and former federal employees not receiving social security, but instead receiving a pension.

I am joined in supporting this legislation by lead authors Chairman Dale Kooyenga (R-Brookfield) and Senator Bob Wirch (D-Kenosha) and Representative David Armstrong (R-Rice Lake) in introducing the legislation, with a total of 30 cosponsors from both parties in both houses who have signed on thus far.

As you may recall, this legislation passed this committee unanimously last session, but was not taken up on the floor before the end of session. This session, it has already received unanimous approval from the Senate Committee on Financial Institutions and Revenue.

I was made aware of the inequitable treatment of these two types of federal retirement plans by Rick Gallo and local Kenosha members of the National Active and Retired Federal Employees Association. This seemed like a common sense issue of fairness, and I was happy to work with my constituents to develop the legislation.

Prior to 1984, all federal employees were covered by the Civil Service Retirement System (CSRS) rather than social security. Beginning in 1984, all new federal employees and those who chose to change plans were covered by the Federal Employees Retirement System (FERS), which is covered by social security.

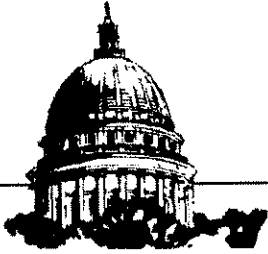
State law exempts social security benefits from the state income tax. It also provides an exemption for civil service pensions for employees who were members prior to 1964. However, post-1964 CSRS federal employees are excluded from this provision and their pensions are taxed in Wisconsin.

The state's tax laws create a donut-hole where certain federal retirees are still being taxed based on their older plans. Our bill aims to provide level treatment among these retired workers and how their benefits are taxed by the state. Neighboring Illinois, for example, exempts both social security and federal pensions from state taxes. This legislation was largely based on a law passed and signed by then-Governor Mike Pence in Indiana in 2015.

While the number of retirees affected by this provision will decrease over time, the bill currently impacts about 20,000 Wisconsinites including postal workers, civilian employees of the armed forces, the Army Corps of Engineers, Department of Veterans' Affairs employees, and Treasury Department employees, among others.

Thank you for your time today, and I would appreciate your support when Assembly Bill 223 comes for a vote before this committee.

65th ASSEMBLY DISTRICT



DALE KOOYENGA
STATE SENATOR · 5TH DISTRICT

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June 8, 2021

TO: Members of the Assembly Committee on Ways and Means
FR: Senator Dale Kooyenga
RE: Assembly Bill 223

Assembly Bill 223 will eliminate a tax disparity between retired social security and federal employees not receiving social security but instead a federal pension.

Prior to 1984, all federal employees were covered by the Civil Service Retirement System (CSRS) rather than social security. Beginning in 1984, all new federal employees and those who chose to change plans were covered by the Federal Employees Retirement System (FERS), which is covered by social security.

State law exempts social security benefits from the state income tax. It also provides an exemption for CSRS pensions for employees who were members prior to 1964. However, post-1964 CSRS federal employees are excluded from this provision and their pensions are taxed in Wisconsin.

While the number of retirees affected by this provision will decrease over time, the bill currently impacts about 20,000 Wisconsinites including postal workers, civilian employees of the armed forces, the Army Corps of Engineers, Department of Veterans' Affairs employees, and Treasury Department Employees, among others.

This legislation is aimed at providing fairness among these retired workers and how their retirement benefits are taxed by the state. Illinois, for example, exempts both social security and federal pensions from taxation.

This legislation will ensure fairness regarding income tax for federal employees who receive a federal pension.

Thank you for your attention to this legislation. I respectfully ask for your support for AB 223.

Testimony in Favor of Assembly Bill 223

Good morning. My name is Thomas Miller, I'm a member of NARFE (National Active and Retired Federal Employees) Chapter 120 in South Central Wisconsin, I'm also the Wisconsin State Federation of NARFE Chapters Legislative Chair. The primary mission of NARFE is to conduct advocacy work on behalf of active and retired federal employees.

I live in Madison and am represented in the Wisconsin Legislature by Senator Kelda Roys and Representative Lisa Subeck, a co-sponsor of this bill, AB223 as well as the corresponding Senate Bill SB246.

I retired in 2009 from working at the Madison Veteran's Hospital in Quality and Performance Improvement and Employee Education. I knew why I got up every morning and went to work, to serve veterans and help improve the care we provided to them. Prior to my work at the VA, I worked as a county extension agent helping farmers and their families maintain and improve their way and quality of life. I choose a career in federal service, certainly not for the money or the recognition, but to help people and serve the public good.

There are over 57,000 active and retired federal employees in Wisconsin with nearly 30,000 of those being retirees receiving a federal government pension. Nearly 20,000 of those retirees will have more money in their pockets should this bill pass. I must point out, there are federal employees and retirees in just about every community in the state, for example employees and retirees of the Post Office, Natural Resource Conservation Service, Farm Service Agency, Fish and Wildlife, Coast Guard and others.

The federal pension system is somewhat complicated. Until 1983, all federal employees were under the Civil Service Retirement System; these employees paid 7% of their salary into the federal pension fund and not into Social Security. Their full retirement annuity is subject to Wisconsin Personal Income Tax unless one entered federal service before 1/1/1964, their annuity is exempt from state tax.

Federal retirement changed in 1984 for new hires when the Federal Employees Retirement System was implemented; these employees pay into Social Security, a small % into a pension fund and can contribute to the Thrift Saving Plan, a 401K type program, with matching up to 5%. So when FERS employees retire they draw a basic benefit, Social Security and from their TSP account if they contributed. Their Social Society annuity portion is not taxed by the State of Wisconsin. Thus, creating unequal treatment of annuity income by the two groups of federal employees.

I estimate that the implementation of the provisions of this bill, will save me about \$650 in Wisconsin state taxes in the first year. Each year thereafter, my Wisconsin state taxes will decrease by an estimated \$2500 to \$3000. These savings will be spent maintaining my home in Madison, paying for medical care, and contributing to local causes.

If I may point out, the fiscal effects of this bill, if passed and signed into law, will decrease over time as CSRS annuitants pass away. The exemption of CSRS federal annuities from taxes may serve as an incentive to stay in Wisconsin rather than move to more tax friendly states.

I ask that you consider supporting and passing this bill out of committee for full Assembly consideration.

— Thank you for your time.

Respectfully submitted,
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