



Van H. Wanggaard

Wisconsin State Senator

TESTIMONY ON SENATE BILL 281

Thank you Mr. Chairman and committee members for today's hearing on Senate Bill 281, relating to exempting from taxation the pension benefits of certain federal employees.

This bill corrects an error 40 years in the making.

Prior to 1984, federal employees were enrolled in the Civil Service Retirement System (CSRS) for their retirement benefits, and they were not eligible for Social Security. In 1984, a new system was created placing federal employees in the Federal Employees Retirement System (FERS), which was run by Social Security. Anyone hired since 1983 is automatically enrolled in FERS, and CSRS enrollment was limited to people who had been hired prior to 1982. CSRS employees could also change their retirement coverage to FERS. CSRS is a closed system, and hasn't had new enrollees since 1987.

Since 1964, Wisconsin has not taxed Social Security income. And since FERS is run by Social Security, FERS employees' pensions are exempt from Wisconsin taxes. This means virtually every federal employee hired since 1982 has tax-free retirement income in Wisconsin. However, if you were one of the federal employees who was enrolled in CSRS, or didn't convert your CSRS to FERS in the 1980's, your retirement income is taxed.

This bill corrects this unintended consequence, and exempts CSRS payments from Wisconsin income tax. As of 2020, there are just over 19,000 CSRS annuitants in Wisconsin, a number that decreases every year due to the age of CSRS retirees. The fiscal estimate for the bill is approximately \$19.4 million when fully implemented in 2025, however due to the decreasing number of CSRS retirees, this number is just an estimate, and will decrease every year.

I hope this committee and the Legislature will join me in treating all federal retirees the same when it comes to income taxation in Wisconsin. Thank you.

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DAVE ARMSTRONG

STATE REPRESENTATIVE • 75TH ASSEMBLY DISTRICT

Testimony on Senate Bill 281 January 17, 2024

Thank you for the opportunity today to speak on behalf of Senate Bill 281.

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), which pays a federal pension but is not covered by Social Security. In the mid-1980s, the federal government switched to the current 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. Senate Bill 281 is a commonsense bill that restores fairness by extending the exemption to all CSRS pensions – up to \$8,000 in tax year 2023, and then 100% going forward.

The Assembly Ways and Means committee approved SB 281's companion, Assembly Bill 285, earlier this month with bipartisan support, and I hope SB 281 will receive similar support in this house.

Thank you for your consideration.

Testimony in Favor of Senate Bill 281

Good morning. And thank you for the opportunity to speak in favor of Senate Bill 281. 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.

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 public service, certainly not for the money or the recognition, but to help people and serve the public good.

There are over 58,000 active and retired federal employees in Wisconsin with 30,000 of those being retirees or their survivors receiving a federal government pension. Approximately 19,000 of those retirees or survivors 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 (CSRS); 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 Security 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 \$700 in Wisconsin state taxes in the first year. Each year thereafter, my Wisconsin state taxes will decrease by an estimated \$3000-3500. These savings will be spent maintaining my home in Madison, paying for medical care, the increased cost of goods and services, 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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DATE: January 5, 2024

TO: Senate Committee on Universities and Revenues
State of Wisconsin

FROM: Diane Hedrich, Secretary, Wisconsin Federation of the Active and Retired
Federal Employees Association (NARFE)

RE: Senate Bill 281 (AB 285) (2023 – 2024 Legislative Session)

My name is Diane Hedrich. I reside at S1292 Lost Oaks Court, Wisconsin Dells, WI 53965. I am a life-long Wisconsin resident. I am unable to be present at the January 9, 2024, hearing, however, I'm submitting the following for your consideration.

I spent my 33-year federal career working at the Federal Correctional Institution, Oxford, WI.

On November 7, 2023, I became the Secretary for the Wisconsin Federation of the National Active and Retired Federal Employees Association (NARFE). Its mission is to support legislation beneficial to federal civilian employees and retirees.

As Secretary, I have joined those whose goal it is to rectify Wisconsin's discriminatory tax law. One of my first steps was to notify the NARFE members impacted and encourage them to take action by contacting their state legislative representatives. Once I disseminated the notification/reference letter, the feedback I began to receive surprised me; specifically,

Number 1. I now believe the majority of the approximately 20,000 federal retirees negatively impacted are **unaware** of the fact they are paying Wisconsin State taxes on their federal retirement while others are not.

*To rectify this, I'm including notifications in Veterans' publications, NARFE publications, federal retiree newsletters, etc. My view is, knowledge is a good thing, especially when voting.

Number 2. Many, now senior citizens, stated they were struggling financially primarily due to constantly increasing age-related health care expenses (dental, eye care, prescription drugs, etc.).

*Rectifying the State of Wisconsin's tax disparity against this group of senior citizens requires support and action by you, State legislators, to change Wisconsin tax law by voting in favor of Senate Bill 281; I urge you to do so.

Number 3. A number of the federal retirees who provided feedback informed me that they were Vietnam Veterans, which is also the case with my husband.

Those hired by the federal government under the Civil Service Retirement System prior to January 1, 1964, which includes many WWI II and Korean War Veterans, **did not pay Wisconsin State taxes on their earning while working nor on their retirement income following retirement.**

Those hired by the federal government under the Civil Service Retirement System on January 1, 1964 – December 31, 1983, which includes numerous Vietnam Era Veterans, **paid Wisconsin State taxes on their earnings while working and now pay on their entire Civil Service Retirement System retirement income.**

Those hired by the federal government beginning January 1, 1984, under the Federal Employees Retirement System, which includes Veterans who served in the various conflicts after 1983, **do not pay Wisconsin State taxes on the Social Security portion of their retirement income.**

It seems unjust that **Vietnam Veterans are required to pay** Wisconsin State taxes on their federal retirement income, while **WW II Veterans, Korean War Veterans, and Veterans who served in conflicts after 1983, do not.** I, therefore, ask that you rectify this injustice by voting in favor of Senate Bill 281 and continue to support it until it becomes law.

Before I close, I want to emphasize to you, as “elected stewards of the state's purse strings,” the fact that the 20,000 number of negatively impacted Civil Service Retirement System annuitants will never increase; instead, as time passes, the Civil Service Retirement System annuitants will continue to die resulting in a continual decrease. As the 20,000 number decreases, so will the cost to the State of Wisconsin until both numbers reach zero!

Thank you for your time and consideration.

Testimony – Wisconsin Senate Universities and Revenue Committee
Thursday January 9, 2023 – 1:30 p.m.

Good afternoon.

My name is Richard Gallo. I reside at 8036 18th Ave. in Kenosha, WI 53143. I live in the 65th Assembly District represented by Tod Ohnstad, and the 22nd Senate District represented by Senator Bob Wirsch. I am a lifelong resident of Wisconsin.

I would like to begin by thanking you for affording me the opportunity to submit these remarks to the committee this afternoon.

I would like to go on the record in support of Senate Bill 281 and the companion Assembly Bill 285.

As you are all undoubtedly aware, there are two separate and distinct federal retirement programs. They are the Civil Service Retirement System (CSRS), and the Federal Employees Retirement System (FERS). Just to provide a little perspective, the Civil Service Retirement System was effectively phased out in 1984. Federal employees hired prior to 1984 generally retired under the Civil Service Retirement System.

The reason FERS was created in 1984 was largely in an effort to save the federal government money. FERS was created at a time when Social Security was thought to be underfunded. By putting all federal employees in Social Security (which was required under FERS), that created 4 million new federal payers into the Social Security system. The program saved so much money that the government even hired people to call CSRS employees to convince them to switch to FERS.

FERS employees receive their retirement income from three different sources. These three sources include: 1) Pension, 2) Social Security, and 3) Thrift Savings Plan.

Because no new employees are permitted into CSRS after January 1, 1984, the number of CSRS retirees can never increase, but will only decrease over time. The reason for this is obvious; as CSRS employees die off, the number only decreases.

There are also a number of points that I would like to emphasize for the committee:

- Federal retirees in Wisconsin are treated much poorer than those in other states. In fact, there are nine states with no personal income taxes whatsoever, and an additional nine states that totally exempt civil service annuities from their state tax structure. On top of that, five additional states exempt certain federal civil service annuities from taxation in some way shape or form. What that means at the very outset, is that Wisconsin retirees are worse off than those residing in 23 other states.
- Beyond those 23 states already mentioned; when you examine state tax treatment of federal annuities in the remaining states, federal retirees in

Wisconsin end up being at or near the bottom in terms of their state tax treatment compared to all 50 states. Wisconsin's tax structure as it relates to federal annuitants, actually drives retirees away from Wisconsin. We believe Wisconsin can do better.

- If you were hired before 1964 (that's 60 years ago), then your pension (whether either CSRS or FERS) is exempt.
- Those hired after 1964 getting a CSRS pension must pay state tax on the full amount of their pension income.
- Those drawing a FERS pension get an exemption for the amount of their retirement characterized as "Social Security."
- It is a matter of fairness – Social Security is not taxed. CSRS retirees do not receive the same benefits that FERS retirees do, because FERS retirees receive Social Security benefits, which are not taxed. It is that "bubble" of people who were hired after 1964, and before 1984 that are affected by the current status of our state laws; and the ones that would benefit from the proposed changes.

FERS has now existed for 39 years. That means that the tax inequity in Wisconsin has also existed for 39 years. We are not before you to seek retribution, nor to recover the tax amounts that were unfairly assessed during these 39 years. We are however, seeking to stop this inequity from going forward. I want to be very clear so that you fully understand that this provision only applies to the approximately 20,000 federal retirees currently receiving a CSRS annuity; and that no new retirees can be added to that number – which has already decreased, and will continue to decrease ultimately going down to zero. It is only the people hired to federal jobs between 1964 and 1984 (and covered by a CSRS pension) that are affected.

We believe that by enacting the changes proposed in Assembly Bill 285 and Senate Bill 281 the Wisconsin legislature can at least take a step toward balancing the scale. At a bare minimum, we believe that enactment of these provisions will at least put CSRS annuitants on essentially the same footing as our counterpart FERS annuitants. As it now stands, people I worked side by side with, day in and day out at the U. S. Postal Service are treated differently, if they were in FERS, while I am under CSRS. They enjoy approximately a \$19,000 exemption toward their state taxes that I do not; simply because their retirement has a Social Security component which mine does not. By passing SB-221/AB-285, you have an opportunity to restore a measure of fairness, and I hope that you will.

I hope you all recognize that when we talk about exemptions of \$8,000 and/or the total amount of a taxpayer's federal pension; that does not mean that CSRS retiree taxpayers will save those amounts. The actual savings would be only 4% of those amounts; in reality, only a few hundred dollars. However, that few hundred dollars can make a big difference to a retiree on essentially a fixed income. In many cases, it might just mean the difference between staying in Wisconsin or moving. It may mean that snow birds

that live in other states for at least 6 months + one day to escape Wisconsin Income Tax altogether, might just stay here. For me personally, I could move 7 miles to the south, and pay no state income taxes on my retirement pension at all (because federal annuities are tax exempt in Illinois). Ironically, Illinois is reputed to be a very unfriendly state concerning taxes; and even their taxes are more favorable than Wisconsin's concerning income tax treatment of CSRS annuitants. My wife and I are not much different than most other retirees. We have medical and dental bills, even with insurance, that just seem to keep increasing as we age. I can personally attest to the fact that dental crowns cost \$800 to \$1,600 each, and implants are even more; these costs are not covered by our insurance plans. I have already had two hip replacements. Our potential tax savings will likely be spent locally taking care of these medical issues. It will also help us to make improvements to our home, and to keep our house and property in good repair. All of these things are done locally. We have long supported various local charities, and having a few extra bucks will allow us to continue this practice. Speaking of aging, we both wear glasses – something our insurance does not cover. We can put the money toward new eye glasses. As you can see, the alternatives are varied and numerous. Rest assured it will not be squandered on luxuries.

I wish to thank those Senators who have cosponsored the Bill in the State Senate, as well as those Representatives who have cosponsored the Bill in the Assembly. I wish to thank you, the members of the Senate Committee on Universities and Revenue, for allowing me to present my testimony to you. Thank you all for your public service, and for your time.

/s/ Richard M. Gallo, Membership Chair
Southeastern Wisconsin NARFE Chapter 1436