Fairfield Senior Advocates
A Voice for Seniors

March 15, 2022

TO: Finance, Revenue, and Bonding Committee
FROM: Gordon Mackenzie, Fairfield, CT
SUBJECT: HB 5408

Esteemed leaders and members of the Finance Committee,

My name is Gordon Mackenzie, a resident of Fairfield CT, and a representative of Fairfield Senior Advocates, an all-volunteer organization here in Fairfield dedicated to making Connecticut more affordable and desirable for our seniors, both here in our town and throughout the State.

We support HB 5408, which raises the maximum income level for *Joint* tax-filers to be eligible for exemption from CT income tax on certain retirement incomes. The current level is $100,000 and the Bill's proposed level is $150,000. This compares to the current *Single* tax-filer level of $75,000.

By retirement income, I am referring to 3 categories of income:

- Social Security benefits;
- Pensions & Annuities, which include traditional pensions, called defined benefit plans, plus income from retirement plans like 401k and 403b defined contribution plans; and
- "Regular IRA" plans (this does not include Roth IRA's since their income is already tax-free from Federal and State taxes).

Although for years CT has been ranked by the media toward the bottom of the list of States that are "tax friendly" to retirees, we can say that starting in the 2017 CGA session there has been meaningful improvement brought by new retirement income legislation that became effective in 2019. Its "roll-out" incorporated increasing yearly tax exemption percentages that have now become significant for many of our senior taxpayers. Attached is a chart that shows the yearly phase-in for each of the three types of retirement income.

I ask you to remember the importance of *retaining* our seniors in our communities. Seniors are major “profit contributors” to our town budgets. This is because, as is the case in Fairfield, over 65% of our town budget is from the cost of Education. Seniors generally have no children in the school system, so when they pay their property taxes, (which for many, this is their largest tax category) two-thirds of those taxes “subsidize” our town’s education expense. If they leave and sell their house to a family of four, this creates a significant town budget impact. In Fairfield we estimate the expected impact of losing a senior household to approach, on average, $10,000 per year.

We know that some factors underlying migration are beyond our control, such as job changes, the weather, and wanting to be nearer to out-of-state family members. But we can help reduce the cost-of- living factor with this kind of proposed legislation. It will enable our state to make CT more attractive financially to a wider senior population than we have today. Also, know that there is a significant population of senior “snow-birds” who, as non-residents, pay property taxes but not CT income taxes. They might be more willing to become CT resident taxpayers if lower retirement income tax rates make this change viable to them.

Lastly, there are two other considerations to keep in mind on retirement income legislation. One is the phenomenon called “the Cliff”, an extreme example being where one couple’s Federal AGI of $99,999 makes them (under current legislation) eligible to save thousands of CT tax dollars on their retirement income, and yet their neighbor whose Federal AGI is at $100,000 would receive zero tax relief. This is unfair and unexplainable to taxpayers. This issue becomes more acute each year as the roll-out plans yield additional tax savings amounts.

Some form of “smoothing out” this abrupt ineligibility to many taxpayers needs to be offered. An example of a solution is the approach New Jersey has taken. Along these lines, we know the Committee frequently asks what other states are doing in this area of retirement income taxation. We have done an analysis of 6 neighboring states (CT, NY, NJ, Mass, RI, and PA) which is shown on a chart attached to this testimony.

Second, consideration should be given to applying an annual cost-of-living adjustment to the cut-off levels, since increasing inflation (and wage) growth dilutes the intention of their initial stated amounts.

Sincerely,

Gordon MacKenzie, Fairfield Senior Advocates, Fairfield, CT

CT. STATE INCOME TAX LEGISLATION ON RETIREMENT INCOME EXEMPTIONS

Summary of Already-announced Implementation Roll-out

<-------------- Income Exemption Percentage *IF* qualified—--------------->

YEAR Federal AGI Limit (Single/Joint) to qualify:	*SOCIAL SECURITY INCOME*	PENSION, 401k,403k, ANNUITIES	REGULAR (non-Roth) IRA'S
<2017 <$50K/$60K	100%	-	-
2018 " "	"	-	-
2019 <$75K/$100K	"	14 %	-
2020 " "	"	28 %	-
2021 " "	"	42 %	-
2022 " "	"	56 %	-
2023 " "	"	70 %	25 %
2024 " "	"	84 %	50 %
2025 " "	"	100 %	75 %
2026 " "	"	"	100 %

HOUSEHOLD INCOME DATA

Quick Facts U.S. Census 2020 (income data = 2019)

Income |State➡ ⬇Type |	Connecticut	New York	New Jersey	Massachusetts	Rhode Island	Pennsylvania
***Mean* Average Household $**	$113,031	$101,945	$114,691	$114,211	$96,922	$84,849
***Median* Average Household $** **(rank in U.S.)**	$78,833 (6th)	$72,108 (14th)	$85,751 (3rd)	$85,843 (2nd)	$71,169 (15th)	$63,463 (23rd)
***Median* Average Household $: Age 65+**	$55,538	$46,606	$54,430	$50,475	$48,559	$42,482

Note: CT has the highest ***per capita*** *income* in the 50 states ($44,496), with Mass. 2nd, New York 3rd, New Jersey 4th, Penn.15th, and RI 17th, but in terms of *median household income, CT* ranks only 6th (Maryland = 1st)

STATE TAX RELIEF ON RETIREMENT INCOME

Age minimum?	(No age limit specified)	59 1/2	62+	65+	65-67 (depends on year of birth)	60+
Social Security	(All filers get 75% taxable income exemption); then: If Fed.AGI=<$75,000 for Single, or<$100,000 for Joint, 100% is exempt.	Not taxed	Not taxed	Not taxed	If AGI > $88,950 (S) or >$111,200 (J), 85% taxable (like Fed.); If less than those limits, variable % is taxable.	Not taxed
Pensions & Annuities (includes 401k, 403b…)	If Fed.AGI=<$75,000 for Single, or<$100,000 for Joint, 42% exemption in 2021, rising to 100% by 2025.	An exemption amount up to $20,000 applies. If spouse also has own pensions/annuities income, up to another $20,000 applies to that.	If total income=<$100,000, can exclude up to $75,000(Single); and $100,000 (Joint). If total income= between $100K and $125K, can exclude 37.5% of total for Single, 50% for Joint. If total is between $125K and $150K, can exclude 18.75% Single, 25% Joint.	$700 exemption if Single, $1,400 if Joint .	If AGI < $88,950 (S) or <$111,200 (J), up to $15,000 exempt; if spouse also has pension/annuities income, up to another $15,000 exemption applies to that.	Not taxed
Regular (non-Roth) IRA's	If Fed.AGI=<$75,000 for Single, or<$100,000 for Joint, 25% exemption in 2023, rising to 100% by 2026.	Can be included in above exemption	Can be included in above exemption	Distributions are taxed	Distributions are taxed	Not taxed
Other (Gov't. , Veterans and Rail. Retirees income treatments not covered here)	Note: CT is one of only 12 states in US that tax Soc.Sec. benefits. In New England=CT, RI, and VT		*Note 1*:"Single" includes Head-of-Household. *Note 2*: see how this approach addresses the "Cliff" problem .		Note: income limits are increased each year using COLA %	General income tax rate Is flat 3.07%..