



DAVE ARMSTRONG

STATE REPRESENTATIVE • 75TH ASSEMBLY DISTRICT

Testimony on Assembly Bill 285 January 4, 2024

Thank you for the opportunity today to speak on behalf of Assembly Bill 285.

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. Assembly Bill 285 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. Assembly Amendment 1 incorporates technical changes at the Department of Revenue's request, correcting cross references.

The Ways and Means committee considered this same proposal last session – 2021 Assembly Bill 223 – and approved it unanimously, and I hope AB 285 will receive similar support.

Thank you for your consideration.



Van H. Wanggaard

Wisconsin State Senator

TESTIMONY ON ASSEMBLY BILL 285

Thank you Mr. Chairman and committee members for today's hearing on Assembly Bill 285, 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 employees 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 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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William Bremer Testimony in Favor of Assembly Bill 285

Good morning, my name is William Bremer and I am here today to encourage your support to send Assembly Bill 285 to the Assembly floor for passage. The purpose of AB 285 is to exempt from Wisconsin income tax a portion the first year and all State income tax in subsequent years the annuity payments for Federal retirees who receive their annuities from the Federal Civil Service Retirement System.

I have lived in Madison since 1976 when my career with the U.S. Department of Transportation in the Federal Highway Administration brought me back to my home State of Wisconsin. I retired in 2012 from the Federal Highway Administration as the Division Highway Safety Engineer. Highway safety is my passion and I worked with my partners at the Wisconsin Department of Transportation to improve the safety on our highways and streets in Wisconsin. I am a member of the National Active and Retired Federal Employees Association, an advocacy Federal employee organization dedicated to support for our earned benefits at the Federal and State governments. I am here today on behalf of myself and our employee association at the local chapter and State Federation level.

My entire federal retirement annuity is from the Civil Service Retirement System, which I contributed 7 percent of my salary to since I started my federal career in 1970. My contribution to the Civil Service Retirement System was in lieu of any payments to Social Security and therefore receive zero Social Security benefits for my working years as a civil servant.

The current Wisconsin tax statutes exempt all payments from the Civil Service Retirement System to Federal annuity recipients hired prior to 1964. Federal employees who started their careers since 1983 are now in the Federal Employee Retirement System which includes contributions to Social Security and receive Social Security annuities when they retire with zero Wisconsin tax liability. Assembly Bill 285 affects only the Federal employees hired in the 20-year window between 1964 and 1983 and the Wisconsin income taxes on their Civil Service Retirement annuities. The estimate is AB 285 will affect approximately 20,000 Wisconsin residents.

The rationale for AB 285 is about fairness for treating older and younger Federal employees equally. Also, many other States already treat Federal annuities the same as Social Security payments with zero state tax liability. This bill will eliminate a reason for retirees to move to other more state tax friendly states. I estimate this bill, if enacted in its present form, would reduce my Wisconsin tax approximately \$500 the first year and \$3500 in the second, and subsequent years.

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

Good morning! My name is Diane Hedrich. As a grandmother whose grandkids frequently mentor me regarding my scattered thought process, I'm going to stick to the point and adhere to my notes.

I spent my 33-year career working at the Federal Correctional Institution located at Oxford, WI, during which time I dealt with diverse groups of incarcerated individuals. My direct communication style worked well with inmates, but sometimes not so well with others. With that said, please don't take anything I say personally. It isn't meant to be disrespectful toward any of you.

During the 2019-2020 and 2021-2022 legislative sessions, I stood before this committee regarding Bills to rectify the tax disparity **negatively impacting approx 20,000 federal retirees**. I spoke about how as impacted senior citizens, my husband and I financially lose ground each year; necessities such as insurance, medicare, property taxes, food, clothing, gas, etc., cost more and far exceeds any cost of living increase received. I stated that my husband and I have considered moving to a more tax-friendly state, as many of our senior-citizen friends have done; however, we're life-long WI residents and would prefer to remain here during our so called "golden years."

During both sessions, the Bills unanimously passed the committee 11 to 0 and 13 to 0; however, **the bill was never brought to the floor for a vote**. My thought—what's wrong with this picture? Does someone have a vendetta against federal retirees, senior citizens, and veterans? I certainly hope not.

On 11/07/23, I reluctantly agreed to serve as the Sec for the WI Federation of the National Active & Retired Fed Employees Assn (or NARFE). NARFE's mission is to support legislation beneficial to federal civilian employees and retirees. Now as the Secretary, I have joined those whose goal it is to rectify WI's discriminatory tax law.

I developed a strategic plan to utilize. One of the steps is to notify the NARFE members impacted and encourage them to take action by contacting their state legislative representatives. In an effort to clarify our predicament to them and others, I prepared a reference letter to be used when making contact. In it I refer to our tax situation as, "being caught in the middle of Wisconsin's tax sandwich."

Specifically....First comes the bread: Those hired by the fed govt under the Civil Service Retirement System prior to 01/01/64, **did not pay WI State taxes on their earnings**

while working nor on their retirement income following retirement. This group includes many WW II and Korean War Veterans.

Then comes the minced bologna: Those hired by the fed govt under the Civil Service Retirement System on 01/01/64 – 12/31/83, who **paid** WI State taxes on their earnings while working and **now pay** on their entire Civil Service Retirement System retirement income. **I've discovered this group includes numerous Vietnam Era Veterans.**

And finally comes the other slice of bread: Those hired by the fed govt beginning 01/01/84, under the Federal Employees Retirement System **do not pay** WI State taxes on the Social Security portion of their retirement income.

My husband and I are part of the minced bologna in this tax sandwich. **We pay** State taxes on our CSRS retirement, **while the slices of bread on both sides do not.**

Once I disseminated the reference letter to NARFE members, the feedback I began to receive surprised me; specifically,

Number 1. I now believe the majority of the approx 20,000 individuals impacted are **unaware** of the fact they're being taxed differently by the State of WI.

Number 2. Many of these senior citizens are struggling financially--even more than I suspected. They mentioned rising insurance costs and out of pocket costs due to age-related health care issues, tax increases, etc.

Number 3. Some Assembly Reps and Senators (or their aides) are disregarding their constituents' requests by failing to commit to coauthoring/cosponsoring the Bills and not responding to the specific questions asked. Instead, they respond with, "Thanks for your input" or "I'll support the Bill once it reaches the floor." This type of response makes it appear to the constituent that their issues aren't a primary concern. **With this perceived lack of commitment from their reps, it makes it appropriate to vote against them during the next election.**

And the most disturbing point, number 4. A number of Vietnam Veterans are part of those being discriminated against by the current tax law. This hits home with me. Upon graduation from college, my husband, Ron, was drafted by Uncle Sam and sent to Vietnam. Upon completion of his 2-year military duty, he couldn't find a job in his field due to a lack of experience. The only job offered to him was that of janitor at the VA Hosp in Madison, which he took so he could pay off his student loan. In addition to

encountering employment issues, the returning vets were greeted with a strong anti-war sentiment. Not a great "welcome back, thanks for your service."

Now, in light of the on-going tax disparity impacting federally-retired Vietnam Vets, when I hear WI State officials thanking them for their service, I think they should end with a rebuttal clause such as: "...but unlike the WWII and Korean War Vets who didn't pay taxes on their earnings nor on their retirement income, we're going to penalize you by requiring you to pay WI State income tax each year on both your earnings and then on your retirement income." Personally, I find this injustice to be absurd!

My efforts to make the appx 20,000 Wisconsinites impacted aware of the tax disparity and to encourage them to take action have only just begun. I'm taking steps to include notifications in Veterans' publications, NARFE publications, federal retiree newsletters, etc. Knowledge is a good thing, especially when voting, I want all negatively impacted retirees to be aware so they, too, can take action!

In conclusion, I'm here today asking that you vote in favor of forwarding AB 285/SB 281 and then continue to support this Bill so it reaches the floor for a vote and passes—let's correct this wrong!

Before I close, I want to emphasize the fact that the 20,000 number of CSRS annuitants will never increase; instead, as time passes, the CSRS annuitants will continue to die so that number will steadily decrease. As the 20,000 number decreases, so will the cost to the State of WI until both numbers reach zero!

As a grandmother who falls within those 20,000 who will die, I find it depressing; however, for you as "elected stewards of the state's purse strings," I believe the steady decline to zero will be viewed as a good thing for the State.

Thank you for your time and consideration.

Testimony in Favor of Assembly Bill 285

Good morning. And thank you for the opportunity to speak in favor of Assembly Bill 285. 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 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 states taxes in the first year. Each year thereafter, my Wisconsin states taxes will decrease by an estimated 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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