



Tod Ohnstad

STATE REPRESENTATIVE

May 25, 2021

Senate Committee on Financial Institutions and Revenue

Senate Bill 246

Representative Tod Ohnstad

Chairman Kooyenga and members of the Committee on Financial Institutions and Revenue, thank you for the opportunity to provide testimony on Senate Bill 246, 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.

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 Senate Bill 246 comes for a vote before this committee.

65th ASSEMBLY DISTRICT





DAVE ARMSTRONG

STATE REPRESENTATIVE • 75TH ASSEMBLY DISTRICT

Testimony on Senate Bill 246 May 25, 2021

Thank you for the opportunity today to speak on behalf of Senate Bill 246.

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. Senate Bill 246 is a commonsense, bipartisan 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.

Thank you for your consideration.