



## INDEPENDENT FISCAL OFFICE

September 23, 2019

The Honorable Francis X. Ryan  
House of Representatives  
149A East Wing Main Capitol Building  
Harrisburg, PA 17102

Dear Representative Ryan:

This letter responds to your requests that the Independent Fiscal Office (IFO) provide various data regarding Pennsylvania residents age 65 or older. Specifically, your letters requested the following information:

- Cost by major program of caring for seniors for FY 2017-18 actual and FY 2019-20 budgeted expenditures. You requested that federal funds and the Lottery Fund be itemized separately from all other state funds.
- For the same years, actual and budgeted revenues attributable to seniors by major category of taxation.
- The impact on the net migration of seniors if school district property taxes were eliminated and (1) retirement income was taxed at a rate of 4.92 percent or (2) retirement income remains untaxed.
- The potential impact on expected costs to the state if senior migration increased based on the scenario in the previous bullet.

The remainder of this letter contains three sections that address these issues. For ease of exposition, this letter uses the term “senior” to refer to all Pennsylvania residents age 65 or older. It is noted that many of those individuals remain employed on a full- or part-time basis, and some may not yet receive retirement income or benefits such as Social Security and pension disbursements.

### **Cost of Major Programs that Provide Services to Pennsylvania Seniors**

**Table 1** provides detail on the estimated costs of major programs that provide services to Pennsylvania seniors from FY 2017-18 to FY 2019-20. The major program costs include (1) the portion of Medicaid and long-term living appropriations administered by the Department of Human Services attributable to residents age 65 and older, (2) additional Lottery-funded programs administered by the Departments of Aging, Revenue and Transportation and (3) funding for Veterans Homes in the Department of Military and Veterans Affairs. The cost estimates are broken out by type of funding (state, federal or

lottery funds). This analysis does not include any state or federal expenditures for non-Medicaid programs without age restrictions (e.g., public safety, state parks, food and nutrition assistance). These programs generally benefit seniors along with the overall population. Also excluded are state funds for the Public School Employees' Retirement System (PSERS) and state employee pension and retiree healthcare benefits.

The analysis estimates that total senior program spending for all funds was \$7.46 billion in FY 2017-18, and is projected to grow to \$9.32 billion in FY 2019-20. The Department of Human Services (DHS) comprises the largest share of spending for senior programs. The department spent \$6.22 billion on senior programs in FY 2017-18, and that will increase to \$8.18 billion (estimate) in FY 2019-20. The increase is attributable to (1) an expanding senior population, (2) temporary cash flow impacts due to the Medical Assistance – Community HealthChoices (MA-CHC) rollout and (3) growth in waiver program costs. Of the \$8.18 billion, \$3.47 billion is state funds, a \$0.84 billion increase since FY 2017-18. Additional DHS spending from the Lottery Fund increased by \$147 million from FY 2017-18 to FY 2019-20, primarily due to the shifting of MA-CHC spending to the Lottery Fund. Federal appropriations for DHS programs that benefit seniors increased by \$961 million from FY 2017-18 to FY 2019-20.

The Department of Aging had a total spend of \$719 million in FY 2017-18, which decreased to \$621 million in FY 2019-20 due to reductions in federal funds and the Lottery Fund. The spending reduction is primarily due to a shift from the PennCare appropriation in the Department of Aging to the MA-CHC appropriation in DHS.

The remaining spending occurs in programs administered by the Departments of Revenue, Transportation and Military and Veterans Affairs. The Department of Revenue, which administers the Property Tax and Rent Rebate (PTRR) program, provided \$164 million of rebates to seniors in FY 2017-18 and nearly the same amount is projected for the current fiscal year. Department of Transportation spending from the Lottery Fund declined from \$179 million in FY 2017-18 to \$171 million in FY 2019-20, while spending by the Department of Military and Veteran Affairs increased from \$171 million to \$185 million for Veterans Homes services for eligible veterans and spouses age 65 and older.

### **Major General Fund Revenues Remitted by Seniors**

Your letter requested that the IFO estimate budgeted revenues remitted by seniors by major tax type. For this purpose, the IFO did not consider indirect taxes that are levied on a business and passed through to shareholders, workers or consumers (e.g., corporate net income, insurance premiums and bank shares), mid-sized or smaller tax types (e.g., realty transfer) and taxes not based on income or consumption (e.g., inheritance). The analysis also did not consider local earned income or sales taxes. Based on these criteria, **Table 2** includes the following General Fund taxes: (1) state personal income tax, (2) state sales and use tax, (3) gross receipts taxes, (4) all tobacco product taxes and (5) liquor and malt beverage taxes. For all consumption taxes, the analysis assumes that taxes are passed through to final consumers via higher prices.

Because they are part of the larger request, the analysis also displays estimated school district property taxes remitted by senior homeowners, and those amounts are itemized separately in Table 2. Senior

renters would also effectively remit property tax, but it is not clear how much of the property tax is passed through to renters. Moreover, the analysis did not assume that businesses pass property taxes through to final consumers, when in fact some portion would be effectively borne by senior consumers. For informational purposes, other major General Fund tax revenues are also displayed in Table 2 but are not apportioned to senior residents.

The following bullets provide a brief explanation of the data sources and results. Due to the imprecise nature of the data and estimates, ranges are used in all cases.

Personal Income Based on data from the Internal Revenue Service (IRS), Pennsylvania Department of Revenue and U.S. Census Bureau's American Community Survey (ACS), the analysis estimates that seniors remit 13 to 16 percent of total state personal income tax revenues.

Sales and Use Based on data from the U.S. Bureau of Labor Statistics' Consumer Expenditure Survey (CEX) and IRS, the analysis estimates that seniors effectively remit 19 to 22 percent of total state sales and use tax revenues.

Gross Receipts Based on data from the CEX, the analysis estimates that seniors remit 20 to 23 percent of total gross receipts tax revenues. Similar to sales tax, the analysis assumes that all gross receipts taxes are passed through to final consumers and are effectively remitted by Pennsylvania residents.

Tobacco Products Based on data from the CEX, the analysis estimates that seniors remit 14 to 17 percent of all tobacco tax revenues.

Liquor and Malt Beverage Based on data from the CEX, the analysis estimates that seniors remit 19 to 22 percent of total liquor and malt beverage tax revenues.

Based on these data sources and assumptions, the analysis estimates that seniors remitted between \$4.2 to \$5.0 billion of General Fund revenues for these five revenue sources for FY 2017-18. For FY 2019-20, the projected range is \$4.6 to \$5.4 billion. Those dollar amounts comprise 15.8 to 18.8 percent of taxes included in this analysis.

The bottom of Table 2 lists other taxes not directly included in the analysis. The next section of this request asks the IFO to analyze the impact on senior migration from the elimination of school district property taxes for senior homeowners. Therefore, those amounts are itemized in Table 2. Based on data from the ACS and Pennsylvania Department of Education, the analysis assumes that homeowners remit 57.5 percent of total school district property taxes. Of that amount, the analysis assumes that seniors remit 29 to 32 percent. If those assumptions hold, then senior homeowners remitted \$2.3 to \$2.6 billion of school district property taxes (excludes Act 1 allocations) for FY 2017-18 and \$2.5 to \$2.7 billion for FY 2019-20.

It is noted that school district property tax effectively remitted by senior renters is excluded. To provide context regarding a potential order of magnitude for those payments, a hypothetical example is as follows: If owners of residential rental units remit 10 to 15 percent (\$1.4 to \$2.2 billion) of all school district property tax and if all property tax on rental units was passed through to renters, then CEX data

suggest that senior renters might effectively pay one-fifth of that amount (\$280 to \$440 million) for FY 2019-20.

### **Senior Migration Patterns and Potential Impact from Proposed Tax Changes**

**Table 3** provides Pennsylvania net migration data across seven age groups from 2011 to 2018. The data reflect both international and domestic net migration. For all years, net international migration was positive (inflows exceed outflows) while net domestic migration was negative. The data from Table 3 are computed as a residual based on published U.S. Census data. For example, total net migration for 2017 was computed as follows: 2017 population less 2016 population less 2017 births plus 2017 deaths. It is noted that these data are preliminary and will be revised after the Census Bureau has completed the 2020 Census.

The preliminary Census data show a net inflow for four years and a net outflow for the other four years. For seniors, the data reveal a net outflow for all years. Data from the Census ACS show that Florida and other southeastern states are popular destinations for Pennsylvania seniors who migrate from the state. For seniors who enter the state, nearly one-half migrate from a border state.

Tax data from the IRS confirm the general patterns from the U.S. Census Bureau. For 2014 to 2015, IRS data show a net outflow of Pennsylvania seniors of -2,100 based on tax returns filed and -3,323 based on exemptions claimed by filers. For 2015 to 2016, the respective figures are -3,340 and -5,263. It is noted that those data only reflect individuals who file a tax return and the age classification is based on the age of the primary filer.

Your letter requests that the IFO consider the potential impact on senior migration from the elimination of school district property tax and either (1) the taxation of retirement income at 4.92 percent or (2) maintaining current law which exempts all retirement income. Your request specifies that Social Security income should not be included in retirement income, but defined benefit and defined contribution plans, IRA withdrawals and annuities should be included.

To address your request, it was necessary to consider how the proposal might impact the typical or median senior resident. For senior homeowners, the analysis projects that the median homeowner with income of \$50,000 to \$53,000 would save roughly \$600 to \$800 under the scenario that taxes retirement and other income at 4.92 percent. (Note: This result assumes that sales taxes paid by seniors does not change.) That estimate assumes that the median senior homeowner receives a typical income flow where pension distributions and IRA withdrawals, which would become newly taxable, comprises roughly 30 percent of total income. All else equal, this median tax reduction for senior homeowners would encourage more senior homeowners to remain in the state. However, given the magnitude of the net tax change for most seniors, any impact would likely be modest. For the scenario that eliminates school district property tax but continues to exempt retirement income, the incentive to remain in state will be stronger and could have some impact on the projected future senior population.

For senior homeowners in other states, moving into Pennsylvania might become more or less attractive depending on (1) the value of the home they intend to purchase and (2) the composition of their future income. For example, if a prospective homeowner benefited from a \$2,500 property tax reduction, that could offset an additional  $\$2,500 / .0492 = \$50,800$  of pension and IRA income that would be newly

subject to tax. For that homeowner, the changes would largely offset.<sup>1</sup> This example assumes that the prospective homeowner does not have other types of income that would pay the higher 4.92 percent (instead of 3.07 percent) rate, such as wages, interest or capital gains.

For senior renters, it is less clear how they would fare because (1) senior renters generally have much less taxable income than senior homeowners and (2) the request did not specify how renters would be treated. Therefore, the analysis did not examine how senior renters might be impacted.

**Table 4** provides a summary of state income tax treatment of retirement income for 2019. As shown by the table, Pennsylvania is one of 28 states with a personal income tax that does not tax Social Security income and one of 3 states that does not tax private pensions. The IFO surveyed research by academics and national policy organizations and could not locate any credible findings that would suggest a significant impact on senior migration patterns from the net tax changes on senior homeowners such as those proposed by the request. Some senior homeowners could be swayed by the proposed change, but research suggests that the impact would likely be modest.<sup>2</sup> It is unclear how recent changes in federal tax law that restrict the state and local tax deduction to \$10,000 could impact results. Current research does not reflect these very recent tax law changes.

I hope you find these data useful. If you have further questions regarding this request, please do not hesitate to contact me (717-230-8293). Per the policy of the IFO, this letter will be posted to the office website three business days after transmittal to your office.

Sincerely,



Matthew J. Knittel  
Director, Independent Fiscal Office

cc:

The Honorable Bryan Cutler, Majority Leader  
The Honorable Donna Oberlander, Chairman- Policy Committee  
The Honorable Mike Peifer, Chairman- Finance Committee  
Jacob Smeltz, Chief of Staff- Majority Leader  
Jeremy Kiehl, Director of Legislative Affairs- Majority Leader

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<sup>1</sup> This simple comparison ignores the fact that some of the current and future benefit from the tax law change would flow as a windfall to current homeowners because a portion of the future property tax cut would be capitalized into current home values and existing home prices would increase.

<sup>2</sup> For example, Conway and Rork (2012) find that “our results are overwhelming in their failure to reveal any consistent effect of state income tax breaks on elderly interstate migration.” See Conway, Karen Smith and Jonathan Rork, “No Country for Old Men (or Women) – Do State Tax Policies Drive Away the Elderly?” *National Tax Journal*, Vol. 65, No. 2, June 2012. More recent research finds that common and significant income tax breaks for the elderly fail to promote state economic growth. See Brewer, Ben and Karen Smith Conway and Jonathan Rork. “Do Income Tax Breaks for the Elderly Affect Economic Growth?” Working Paper (September 2017).

**Table 1  
Program Funding for Pennsylvania Seniors (\$000s)**

	2017-18 Actual	2018-19 Actual	2019-20 Enacted
Department of Aging:			
State <sup>1</sup> .....	\$2,275	\$25,771	\$2,047
Lottery <sup>2</sup> .....	534,436	520,470	492,933
Federal <sup>3</sup> .....	181,994	158,702	126,154
Department of Human Services:			
State <sup>4</sup> .....	2,629,269	3,043,345	3,473,894
Lottery <sup>5</sup> .....	253,449	372,355	400,513
Federal <sup>6</sup> .....	3,341,346	3,581,971	4,302,596
Department of Revenue:			
Lottery <sup>7</sup> .....	163,762	155,343	163,199
Department of Transportation:			
Lottery <sup>8</sup> .....	178,882	165,429	170,907
Department of Military and Veterans Affairs:			
State <sup>9</sup> .....	111,727	116,356	116,918
Federal <sup>9</sup> .....	59,033	62,614	68,191
Total State.....	2,743,271	3,185,472	3,592,859
Total Lottery.....	1,130,529	1,213,597	1,227,552
Total Federal.....	3,582,373	3,803,287	4,496,941
Total All Funds.....	<u>7,456,174</u>	<u>8,202,356</u>	<u>9,317,352</u>

<sup>1</sup>Includes appropriations from the Tobacco Settlement Fund (TSF) and the Pharmaceutical Assistance Fund.

<sup>2</sup>Includes funding to administer PENNCARE, Pre-Admission Assessment, Caregiver Support, Alzheimer's Outreach, Pharmaceutical Assistance Fund and Grants to Senior Centers appropriations.

<sup>3</sup>Includes appropriations from the TSF.

<sup>4</sup>Includes General Fund and TSF funding for MA - Long-Term Care, MA - Community HealthChoices, MA - Capitation, MA - Fee-for-Service, Home and Community-Based Services, Long-Term Care Managed Care and Payment to Federal Government - Medicare Drug Program appropriations.

<sup>5</sup>Includes MA - Long-Term Care, Home and Community-Based Services, MA - Community HealthChoices and MA - Transportation Services.

<sup>6</sup>Includes MA - Long-Term Care, MA - Community HealthChoices, MA - Home and Community-Based Services and MA - Long-Term Care Managed Care.

<sup>7</sup>Estimated PTRR funding attributable to recipients age 65 and older is based on Department of Revenue PTRR statistical report data.

<sup>8</sup>Includes Transfer to Public Transportation Trust Fund and Older Pennsylvanians Shared Rides appropriations.

<sup>9</sup>Veterans Homes funding attributable to residents age 65 and older.

**Table 2**  
**Pennsylvania Senior Share of Tax Revenues**

Revenue Source	Share Age 65+		FY 2017-18			FY 2019-20		
	Low	High	Total	Estimated Senior		Total	Estimated Senior	
			Amount	Low	High	Amount	Low	High
State Personal Income	13.0%	16.0%	\$13,399	\$1,742	\$2,144	\$14,544	\$1,891	\$2,327
State Sales and Use	19.0	22.0	10,381	1,972	2,284	11,544	2,193	2,540
Gross Receipts	20.0	23.0	1,150	230	264	1,211	242	279
All Tobacco	14.0	17.0	1,317	184	224	1,083	152	184
Liquor and Malt Beverage	<u>19.0</u>	<u>22.0</u>	<u>396</u>	<u>75</u>	<u>87</u>	<u>420</u>	<u>80</u>	<u>92</u>
<b>Total or Weighted Average</b>	<b>15.8</b>	<b>18.8</b>	<b>26,643</b>	<b>4,204</b>	<b>5,003</b>	<b>28,802</b>	<b>4,558</b>	<b>5,422</b>
<u>Other Major Taxes</u>								
Homeowner SD Property Tax	29.0%	32.0%	8,076	2,342	2,584	8,453	2,451	2,705
Corporate Net Income	n.a.	n.a.	2,879	n.a.	n.a.	3,458	n.a.	n.a.
Insurance Premiums	n.a.	n.a.	451	n.a.	n.a.	461	n.a.	n.a.
Bank Shares	n.a.	n.a.	340	n.a.	n.a.	357	n.a.	n.a.
Realty Transfer	n.a.	n.a.	514	n.a.	n.a.	553	n.a.	n.a.
Inheritance	n.a.	n.a.	1,019	n.a.	n.a.	1,067	n.a.	n.a.

Note: Millions of dollars. Only direct and consumption taxes included. Business taxes such as corporate net income, bank shares and insurance premiums were not included for the purpose of this analysis. Analysis assumes all sales-use and gross receipts taxes remitted by businesses are fully passed forward to consumers. Property taxes remitted by businesses are not included. School district property tax excludes Act 1 allocations and assumes 57.5 percent of tax is remitted by homeowners.

Source: Tax revenues from IFO Official Revenue Estimate. Data used to inform shares are from various sources including: federal tax data published by state (Internal Revenue Service), Consumer Expenditure Survey for northeast consumers and consumers age 65 or older (U.S. Bureau of Labor Statistics) and the American Community Survey (U.S. Census Bureau).

**Table 3**  
**Pennsylvania International and Domestic Net Migration**

Age Group	Census Year Ending July 1							
	2011	2012	2013	2014	2015	2016	2017	2018
0 to 17	12,987	10,290	7,789	8,684	8,419	7,590	11,321	13,140
18 to 24	-4,176	-7,827	-6,863	-7,561	-9,630	-8,250	-7,534	-4,508
25 to 34	10,588	8,083	4,967	3,314	2,095	4,121	7,008	9,335
35 to 44	4,099	3,384	2,078	1,663	641	1,028	3,197	4,877
45 to 54	277	-619	-938	-1,306	-2,413	-3,360	-2,439	48
55 to 64	-1,603	-3,207	-2,747	-3,190	-4,424	-6,013	-4,276	-3,080
65+	<u>-3,646</u>	<u>-3,301</u>	<u>-6,212</u>	<u>-3,464</u>	<u>-6,479</u>	<u>-3,969</u>	<u>-2,572</u>	<u>-4,339</u>
<b>Total</b>	<b>18,526</b>	<b>6,803</b>	<b>-1,926</b>	<b>-1,860</b>	<b>-11,791</b>	<b>-8,853</b>	<b>4,705</b>	<b>15,473</b>

Source: IFO computations based on U.S. Census Bureau data.

**Table 4**  
**State Income Tax Treatment of Retirement Income**

<b>State</b>	<b>Private Pensions</b>	<b>Gov't Pensions</b>	<b>Social Security</b>
Alabama	limited exemption	exempt	exempt
Alaska	n.a.	n.a.	n.a.
Arizona	fully taxable	\$2,500	exempt
Arkansas	\$6,000	\$6,000	exempt
California	fully taxable	fully taxable	exempt
Colorado	\$20,000/\$24,000	\$20,000/\$24,000	income dependent
Connecticut	limited exemption	limited exemption	income dependent
Delaware	\$2,000/\$12,500	\$2,000/\$12,500	exempt
Florida	n.a.	n.a.	n.a.
Georgia	\$35,000/\$65,000	\$35,000/\$65,000	exempt
Hawaii	limited exemption	exempt	exempt
Idaho	fully taxable	\$31,668	exempt
Illinois	exempt	exempt	exempt
Indiana	fully taxable	limited exemption	exempt
Iowa	\$6,000	\$6,000	exempt
Kansas	fully taxable	exempt	income dependent
Kentucky	\$31,110	\$31,110/exempt	exempt
Louisiana	\$6,000	\$6,000/exempt	exempt
Maine	\$10,000	\$10,000	exempt
Maryland	\$30,600	\$30,600	exempt
Massachusetts	fully taxable	exempt	exempt
Michigan	limited exemption	limited exemption	exempt
Minnesota	fully taxable	limited exemption	income dependent
Mississippi	exempt	exempt	exempt
Missouri	\$6,000	\$37,720	income dependent
Montana	\$4,180	\$4,180	income dependent
Nebraska	fully taxable	limited exemption	income dependent
Nevada	n.a.	n.a.	n.a.
New Hampshire	n.a.	n.a.	n.a.
New Jersey	\$60,000	\$60,000	exempt
New Mexico	\$8,000	\$8,000	income dependent
New York	\$20,000	exempt	exempt
North Carolina	fully taxable	fully taxable	exempt
North Dakota	fully taxable	fully taxable	same as federal
Ohio	\$200 credit	\$200 credit	exempt
Oklahoma	\$10,000	\$10,000	exempt
Oregon	limited exemption	\$6,250 credit	exempt
<b>Pennsylvania</b>	<b>exempt</b>	<b>exempt</b>	<b>exempt</b>
Rhode Island	\$15,000	\$15,000	income dependent
South Carolina	\$3,000/\$15,000	\$3,000/\$15,000	exempt
South Dakota	n.a.	n.a.	n.a.
Tennessee	n.a.	n.a.	n.a.
Texas	n.a.	n.a.	n.a.
Utah	\$288/\$450 credit	\$288/\$450 credit	\$288/\$450 credit
Vermont	fully taxable	fully taxable	income dependent
Virginia	fully taxable	fully taxable	exempt
Washington	n.a.	n.a.	n.a.
West Virginia	\$8,000	\$2,000/\$8,000	same as federal
Wisconsin	\$5,000	limited exemption/\$5,000	exempt
Wyoming	n.a.	n.a.	n.a.

Note: Reflects Tax Year 2019 maximum allowable deductions for single filer or head of household aged 65 or older. N.A. represents states that have no personal income tax on wages. Where applicable, lower deduction limit reflects amount for residents under age 65.

Source: National Conference of State Legislatures and Bloomberg BNA State Tax.