

White Paper

July 29, 2019

Retention of Nebraska Veterans After Military Service

Purpose

The purpose of this paper is three-fold. First, to state the importance of creating tax incentives as a retention effort of military veterans separating or retiring from service. Second, to gain support in the upcoming 2020 Nebraska State Legislative Session to change provisions relating to the taxation of military retirement benefits. And, third, to initiate the creation of a viable recruitment program of veterans in Nebraska.

Background

The DoD contributes billions of dollars each year to state economies through the operation of military installations. Impacts generally include salaries and benefits paid to military and civilian personnel and retirees, defense contracts, local business activity supported by military operations, tax revenues and other military spending.

In 2015 the National Conference of State Legislatures completed a study on the economic impact of the military in each state. Nebraska was recipient of considerable military influence:

- \$1.5B in defense spending, or 1.3% of State GDP.
- 16,776 defense personnel (active duty, civilian, Guard and Reserve).
- Nebraska Military Department employed 4,545 jobs with a total payroll of about \$150M while receiving \$22M in federal appropriations.

Retention of separating and retiring veterans is critical to defense support operations in Nebraska. Earlier this year Governor Ricketts introduced legislation that would affect more than 13,000 military retirees in Nebraska to enhance retention. "We want to make Nebraska the most veteran-friendly state in the country and encourage our heroes to stay in our state and move here," the Governor said in announcing his support for the proposal.

The proposal, LB 153 providing a 50% tax break on military retiree pensions, went before Legislators and failed to gain sufficient support despite being championed by numerous Senators and thousands of veterans and civilian residents. Thereby ignoring and insulting the service of our veterans, many of whom served in combat for this Nation, and causing serious degradation of future retention efforts of veterans in and outside Nebraska.

Approximately two years from retirement, veterans begin an assessment of where they want to reside and work. In doing so they will review some of the following:

- State tax incentives on pensions
- Health facilities accepting military benefits (TRICARE)
- Veterans Administration facilities
- Employment opportunities, particularly affording application of their military experience
- Property taxes
- Education opportunities for their G.I. Bill

How does Nebraska fair in their assessment? I assure you that if the decision is tax dependent, it would be a failure.

Analysis

Benefits to attract Veterans

More than a dozen states have passed laws exempting military pensions from their tax base – as they attempt to lure retired service members. Cities such as Norfolk, Virginia and San Antonio, Texas, employ military liaisons whose jobs include outreach to retirees. Many states are rushing to provide other benefits, fully understanding that tax incentives are of utmost priority for the veterans. Why is retention so important to the states? Simply, because of the economic impact on them. A Bureau of Business Research Report from the University of Nebraska in November 2018 provides shocking summaries of military veterans impact in our state. Here is an extract:

“The present study estimates that there are 15,651 additional veterans living in Nebraska due to Offutt Air Force Base, including about 13,455 veterans and spouses of working age (representing the potential supply of labor), than regional averages would suggest. This population impact is noteworthy given that many of these veterans are part of the Nebraska labor force, particularly given the set of skills which military veterans bring to the state economy. These estimates illustrate the importance of military installations in attracting and retaining the separated military population, and thereby growing the number of veterans in the state. However, the trends suggest that the overall number of veterans and retired military personnel (a subset of veterans) is declining. Specifically, the number of veterans in Nebraska has decreased by 27% since 2005, and the number is projected to decline in coming years. In addition, after several years of growth, the number of military retirees paid by the DoD in Nebraska has flattened. Both trends suggest that the human capital advantages that Nebraska has previously experienced from having large numbers of former military personnel may begin to decline. Further, the decrease in separated military personnel may lead to a slowing of federal dollar flows going to Nebraska veterans and military retirees,” the report stated.

And, the report’s subsequent statement adds fuel to the fire that initiating programs to attract and retain military operations, support businesses and veterans in Nebraska is critical to the economy.

“An additional 7,403 jobs were created as a result of activity at bases and facilities, for a total of 26,368 jobs created in Nebraska. A total of \$1.55 billion in direct economic activity and \$1.07 billion in employee compensation occurred at the military installations located in the state. The economic impact was estimated in terms of economic output (business sales), employee compensation (wages and benefits) and employment. Activity at bases and facilities generated an additional \$1.01 billion in economic output and \$314.5 million in employee compensation across the state. This resulted in a total of \$2.55 billion in economic output, and \$1.38 billion in employee compensation for Nebraska workers.”

The most important line of their above statements bears repeating. **“Specifically, the number of veterans in Nebraska has decreased by 27% since 2005, and the number is projected to decline in coming years.”** We need to stop that decline.

If Nebraska Legislators do not take immediate action the economic impact from loss of veterans could be disastrous, as indicated by these facts:

- Retirement and pension spending alone generate 2,783 new job, resulting in \$114.2 million in compensation to these employees.
- Estimates show that VA spending results in \$1.74 billion in economic output and the employment of 13,844 workers with a total salary of \$676.1 million.
- GI Bill spending in the state results in 449 jobs, \$21.3 million in salary, and \$43.1 million in economic output.
- Spending at military bases and installations accounts for \$2.34 billion in economic output, \$1.31 billion in employee compensation, and 25,303 jobs.

Realizing their impact, recruitment efforts outside Nebraska for veterans has become intensive while utilizing tax incentives and programs to entice their employment and residence. I will use Iowa as an example:

- Active duty and retired pay is tax free.
- There is a home ownership grant program.
- There is a 100% disabled veteran homestead exemption.
- An injured veteran grant program
- There is an outstanding employment recruitment program
- And, much more

Why not Nebraska as a veterans future after military service?

Unfortunately, Nebraska provides little tax break incentives to military retiree pensions.

- Nebraska being one of only 5 states that tax Social Security AND military retired pay.
- Only military retirees in Nebraska who retire after July 18, 2012 are allowed to exclude pension income according. They may elect to only exclude 40% of military retirement benefit income for seven consecutive taxable years, or to exclude 15% of his or her military retirement benefit income for all taxable years, beginning with the year in which he or she turns 67 years of age. This entirely confusing system that excludes veterans from other periods of service is a total insult to their many years of serving our country, particularly those who served in combat actions since WWII for our Nation. And, it seriously impacts retention efforts.

There are far too many states offering tax incentives for veterans beyond that offered by Nebraska. Some offer partial tax incentives; many offer total exemption as noted in the following table:

State	Military Retirement Pay State Income Tax Info
Alabama	Military Retirement Pay Exempt
Alaska	No State Income Tax
Arkansas	Military Retirement Pay Exempt
Connecticut	Military Retirement Pay Exempt
Florida	No State Income Tax
Hawaii	Military Retirement Pay Exempt
Illinois	Military Retirement Pay Exempt
Iowa	Military Retirement Pay Exempt
Kansas	Military Retirement Pay Exempt
Louisiana	Military Retirement Pay Exempt
Maine	Military Retirement Pay Exempt
Massachusetts	Military Retirement Pay Exempt
Michigan	Military Retirement Pay Exempt
Minnesota	Military Retirement Pay Exempt
Mississippi	Military Retirement Pay Exempt
Missouri	Military Retirement Pay Exempt
Nevada	No State Income Tax
New Hampshire	Military Retirement Pay Exempt
New Jersey	Military Retirement Pay Exempt
New York	Military Retirement Pay Exempt

State	Military Retirement Pay State Income Tax Info
Ohio	Military Retirement Pay Exempt
Pennsylvania	Military Retirement Pay Exempt
South Dakota	No State Income Tax
Tennessee	No State Income Tax on Earnings or Pensions
Texas	No State Income Tax
Washington	No State Income Tax
Wisconsin	Military Retirement Pay Exempt
Wyoming	No State Income Tax

How about Omaha as a veterans future after military service?

Whenever retention of veterans in Nebraska is addressed it seems to be a common theme to reference veteran numbers in the Omaha area despite how many veterans are located throughout the entire state. But, how many of the military retirees or those separating actually stay in Omaha after failed state tax incentives on their pensions? How many leave the area after training in an Omaha job position and depart to similar employment opportunities in more tax friendlier states? More importantly, how many are employed in Omaha but actually reside out-of-state to avoid a large tax base? Consider Council Bluffs, Iowa which is a short distance away where, as outlined above, the veterans tax incentives and recruitment efforts greatly outshine that of Nebraska. Knowledgeable veterans surely would live in Iowa while working in Omaha because:

- Active duty & retired pay is tax-free.
- It is a relatively short commute to Omaha.

Plus, Iowa offers a wonderful recruitment program called Home Base Iowa. A public/private program matching those transitioning from military careers to Iowa based job resources and partner agencies. It is intended to bring together Iowa businesses with qualified veterans looking for career opportunities. There is nothing on this level of recruitment success at this time in Omaha or the entire State of Nebraska. Many other states also have similar veterans retention programs.

What about other states for the veterans future after military service?

This past year WalletHub, an internet financial advisor, for the second time in two years, compared the 50 states and the District of Columbia on their ability to provide an optimum military retirement. During their first assessment, Nebraska ranked far down in recommended states for retirement. Their new analysis again uses a data set of 29 key metrics and here is an extraction of their most recent study by comparing the top 10 states versus Nebraska.

Overall Rank	State	Total Score	'Economic Environment' Rank	'Quality of Life' Rank	'Health Care' Rank
1	Virginia	60.24	3	5	15
2	Florida	59.55	9	2	16
3	Maine	59.26	7	27	1

Overall Rank	State	Total Score	'Economic Environment' Rank	'Quality of Life' Rank	'Health Care' Rank
4	New Hampshire	57.23	6	11	20
5	Massachusetts	56.47	1	49	2
6	Alaska	56.35	12	10	13
7	Minnesota	56.30	8	32	7
8	South Dakota	56.23	14	34	3
9	Idaho	55.74	10	21	9
10	South Carolina	55.11	21	1	35
25	Nebraska	50.16	28	16	25

Summary

It is time for Nebraska Legislators to step up and support tax incentives in their 2020 legislation to provide a tax break for military retirees to honor their service, to enhance their retention and to provide optimum revenue introduced into our economy following their retention. A token 50% tax break may or may not be successful, but I guarantee a 100% tax break on military pensions will be met with great retention success. Also, a viable Homefront program such as that in Iowa needs to be established.

The chart below from the Veterans Administration clearly depicts the future of veteran manpower in our country. The competition among states to recruit veterans leaving the military will become significantly more intensive as the manpower pool shrinks over the next 20 years. As will the impact upon Nebraska's economy if actions to improve retention are not started today. Senators, I ask you to review these charts and take action in the 2020 Legislation to remedy the future for veterans in Nebraska before an economic disaster takes place from veteran attrition.

The Veteran Population Projection Model 2016 (VetPop2016) provides the latest official Veteran population projection from the Department of Veterans Affairs (VA). VetPop2016 contains projections for each fiscal year from 2015 to 2045.

The total Veteran Population is predicted to decline from 20.0 million in 2017 to 13.6 million in 2037

