

GENERAL ASSEMBLY OF NORTH CAROLINA

Session 2011

Legislative Fiscal Note

BILL NUMBER: House Bill 473 (First Edition)

SHORT TITLE: Equal Tax Treatment of Gov't Retiree Benefits.

SPONSOR(S): Representatives Cleveland, Boles, and Iler

FISCAL IMPACT (\$millions)					
	Yes (x)	No ()	No Estimate Available ()		
	<u>FY 2011-12</u>	<u>FY 2012-13</u>	<u>FY 2013-14</u>	<u>FY 2014-15</u>	<u>FY 2015-16</u>
REVENUES:	-\$111.1	-\$103.7	-\$140.5	-\$190.4	-\$258.0
PRINCIPAL DEPARTMENT(S) & PROGRAM(S) AFFECTED: NC Department of Revenue					
EFFECTIVE DATE: January 1, 2011					

BILL SUMMARY:

Under the **Bailey** decision, public sector retirees who have five years of creditable service as of August 12, 1989, are entitled to a full income tax exclusion for their retirement pay. The remaining “nonvested” public sector retirees as of that date and taxpayers receiving a pension from a state or local unit in another state receive a \$4,000 exclusion.

The bill provides that all federal, state, and local retirees would receive the full exclusion regardless of their vesting status or their state of employment. The exemption for retirees from other states would be limited to the amount the other state allows to retirees of the North Carolina or its political subdivisions, but not lower than \$4,000.

ASSUMPTIONS AND METHODOLOGY:

The Department of State Treasurer provided Fiscal Research Division with a tabulation of the total number of “non-vested” (as of 8/12/89) state and local retirees by size of retirement check. The first step in determining the fiscal impact is to account for the existing \$4,000 exclusion. After subtracting this amount from the average pay for the various retiree categories, the “after-exclusion” pension amount is calculated by multiplying the number of employees in each category by the average amount of pension in excess of the current exclusion. This amount is multiplied by 7% to obtain the overall tax loss resulting from the total exemption.

There was no comparable distribution data for federal civil service and military retirees. To make an estimate for these classes, we looked at a historical estimate of the total number of federal pensioners relative to state and local retirees (federal is 5.6% higher) and the average check size (federal is 33% higher) to develop an estimate for total federal pension dollars in North Carolina. The tax savings were then tabulated using the same methodology as that used for state and local retirees.

The next issue was how to grow the number of nonvested retirees in the future. The method used was to analyze the actual growth in the tax cost of the proposal between the 2007 session estimates 2011 basis. The average annual growth rate turns out to be 33%. This is comparable to the 37.6% growth rates used in the 2007 session analysis. The rate is high due to a combination of: (1) the rapid increase of August 12, 1989 nonvested retirees, (2) the recent tendency for employees to work for the state just long enough to obtain health insurance coverage, and (3) the annual increase in pension benefits.

The analysis indicates that there are about 46,353 state and local retirees who would receive relief under the bill. The estimated number of impacted federal retirees is 49,134.

Retirees of Other States: There is no data in North Carolina on retirees from state and local units of other states. It was assumed for this analysis that there are 1,000 such retirees and that the average pension is the same as North Carolina state and local retirees. This information was then used to make the same type of calculation as that for federal retirees. The total impact of this portion of the bill is \$1 million for 2011-12.

Because the bill is effective January 1, 2011, the first-year impact includes the full impact of calendar year 2011, plus the impact of estimated payments in the first half of 2012, which represents approximately 45% of the annual impact.

SOURCES OF DATA: NC Department of State Treasurer

TECHNICAL CONSIDERATIONS: None

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DATE: April 26, 2011



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