

# Support for SB 201 and Beyond

## The Law, Current and Proposed.

On July 21, 2022, Governor Carney signed [SB 188-1](#) into law before a roomful of National Guard **who did not benefit from it.**

Amending Delaware Code, Title 30, to exclude an additional \$10.5K of military pensions from taxable income was supposed to be “an incentive for military Retirees under age 60 to locate in Delaware.” But SB 188-1 ignored nearly three dozen other states where military pensions are [100% tax-free](#).

SB 188-1 was viewed by many as being a “step in the right direction.” Senator [Eric Buckson](#) is taking another giant step on that journey with [SB 201](#). Still, the proposed bill will not align Delaware with [33 other states](#) that either do not tax military retired pay or do not have an income tax. Those states—not Delaware—will continue to reap the talent retiring from today’s Military.

SB 201 will phase in gradually. By January 2026, \$25,000 of Military Retired Pay will be tax-free for all, regardless of age. That sounds good, but compare this to Virginia, which is currently working to phase in tax exemptions in progressive \$10K increments to a maximum of \$40K in 2025.

## Delaware’s History of Tax Benefits for Military Retirees.

In 2004, when advocates first began beating the 100%-military-pension-exemption-drum, about 20 States were income tax-free. [SB 95](#) was born in 2005, and [SB 48](#) followed two years later. Both ended up in desk drawers.

Senator [Mantzavinos](#) introduced SB 188 (originally 100% tax-free) in January 2022 when there were [21](#) tax-free states. While Delaware struggled to whittle SB 188 down to an amended \$10.5K benefit immediately upon retirement, [five more](#) States came online. Considering nine states do not have an income tax, on the day SB 188-1 became law, Delaware trailed 66% of America in attracting Military Retirees.

Furthermore, SB 188-1 excluded the National Guard and Reserve Component (RC) from increased tax benefits. One “grey zone retiree” –an RC member with “20 good years” vested for retirement but not yet 60, the age at which they draw their pension-- said he would leave Delaware to keep all his military retirement. While Senator Buckson’s bill will give the Reserve Component more of their retirement tax-free— depending on rank, potentially all of it tax-free--they still must reach age 60 to draw it.

## **Why Tax Exemptions for Retired Military are Needed.**

SB 201 is another giant step in the right direction, but it does not go far enough. Until Delaware reaches 100% tax-free status for Military Retirees, it is unlikely to entice anyone to retire here unless they were already coming for other reasons. Our Governor points to our excellent general tax benefits. However, *Kiplinger Newsletter* disagrees: Delaware is no longer at the top of Kiplinger’s [most tax-friendly place to retire](#).

Delaware remains a great choice for civilian retired fleeing higher taxes in the States to our North. But that is a problem! With so many retired people flocking to Delaware, who will provide goods and services to this aging population?

Delaware ranks [15% in the nation](#) based on the percentage of veterans (in 2019, 66896 of us --8.8%--were veterans.) However, working-age veterans only make up 18% of that total (12,053 are Gulf War II-era vets). The same is true for our 9,000 Military Retirees; less than 2,000 are of “working age.”

In May 2022, the Ceasar Rodney Institute [concluded](#) that while retired persons are moving in, the working population is not growing, and the youth are moving out. The answer to this problem is attracting Military Retirees. Military Retirees provide a solution since they tend to be community-minded, physically fit, and have solid work ethics in the skill sets employers seek.

### **Differences between Military Retirees and Veterans, Civilian Retired.**

Although Military Retirees are both “retired” and “veteran,” a Military Retiree is different from a veteran. A Military Retiree is different from a civilian retired person.

**Veteran v. Retiree.** According to [USC Title 38](#), a veteran is anyone who served on active duty for as little as 180 days and was not dishonorably discharged. The majority of veterans ([81%](#)) never reach retirement, either by their own choice or the Military’s up-or-out system. While [85%](#) of veterans receive Honorable discharges, a veteran may be homeless or have been terminated for medical problems or needs of the service.

On the other hand, 100 percent of Military Retirees have an Honorable characterization of their service. They stood the test of time, proven worthy in the job knowledge, dedication to duty, and leadership, fulfilled all their obligations, and enjoyed successful 20-year careers.

**Civilian v Military Retirees:** Whereas retired civilians cease working, the Military Retiree is just beginning a second career. The average age when a Delawarean [retires is 63](#). The average Military Retiree is a 38-year-old sergeant with a working spouse and college-aged kids. (Officers might be 52 because they entered after college.) A retired sergeant can work another 25 years; Delaware will fully tax that work. And the spouse’s.

Enlisted or officers, most Military Retirees are college-educated, their education being done at night while they worked full time—no student loans because in-service VA benefits paid.

Eighty percent of the Military are enlisted, so 80% of Military Retirees are enlisted. The average enlisted military pension is [< \\$35](#) per year, [<\\$46K](#) for officers. Military Retired pay is not enough to live on, per [Forbes](#). As well-intentioned as it is, SB 201 will still not be enough to exempt all military pay (\$26K is less than \$35K, the most common amount of retired pay.).

Unlike civilians who generally stop working when they retire, the Military Retiree earns more in their second careers than the amount of their military pension. The average salary in Delaware is [\\$68K per year](#), according to job postings on Zip Recruiter, while the average salary in Delaware for Military [Retired is \\$55K](#). According to Zip Recruiter, very few jobs are posted targeted to the Retired Military in Delaware.

The average taxable pay remains larger than the Military Retired Pay. Delaware would still gain tax revenue for a potential 20+ second career, even if it did not tax the military pension.

A Rand Study found similar [results](#), in that the salaries of Retired Military were lower than the average civilian salaries. However, the report concluded,

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*Despite earning comparatively low wages, however, retirees seem to find the transition to civilian life to be fairly painless; they find full-time work quickly and report a high level of satisfaction with their civilian lives.*

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Hence, a tax-free military retirement is a “loss leader” to attract highly skilled talent to Delaware, whose civilian income (and that of their spouse) remains 100% taxable. The loss in taxing retired pay is more than made up by taxing the civilian salaries for a potential entire 20-year second career. Delaware will also collect Taxes on investment income, real estate transfer taxes, vehicle taxes, etc. None of this will be possible if the Sergeant goes to another State that does not tax retired pay.

Here are two real-world examples: 1) A sergeant retired to Delaware due to family considerations and worked an entire career in State Government. 2) A sergeant retired from DAFB and stayed to finish a degree. He then taught and also served as an elected official. In both these cases, the civilian salary was much larger than the retired military pay. And both sergeants made Delaware a better place. Many more success stories happen in other states because sergeants cannot afford to live in Delaware, where some of their Retired Pay is taxed. They have nearly three dozen other states from which to choose.

Military Retirees outlive their non-retiree cohorts, too. The younger they are when they retire, the greater their odds of [living longer](#)—yet another reason to attract retired sergeants. But unless they have pressing other reasons to stay in Delaware, they will most likely go where they can keep their entire military pay, not just part of it.

## **Why entice Retired Military to Delaware with Tax Cuts?**

Most Military Retirees excel in highly technical jobs that are in demand. Any job you can think of, there is a [military MOS](#) equivalent. But we cannot attract these skills because Delaware ranks middling to worst as a place for Military Retirees.

*Kiplinger Newsletter* ranks Delaware as the third [worst](#) in its list of the “Most Expensive States for Retired Military Retirees,” ranking below California (worst) and Colorado (2nd

worst). According to *Kiplinger*, the \$12,500 tax-free pension “is smaller than similar exemptions available in other states that do not fully exclude military pension.” Our current bill did not change this fact. It only made it available sooner. Sen. Buckson’s SB 201 will help, but will not remove Delaware from undesirable lists.

Delaware fares better in [WalletHub](#), ranking 33d (down from 26 when SB 188 was signed into law two years ago) because WalletHub included non-financial comparisons, one of which is Delaware’s low homeless vet population. This factor may apply to veterans but rarely to Military Retirees.

It is all well and good to have the notion that not charging taxes on retired military pay is patriotic and a way for society to pay back those who were ready to die for the American way of life. SB 188-1 and the proposed SB 201 both achieve this. Thank you.

But that is not the reason to make military retired pay exempt from Delaware taxes. The question is not “What can Delaware do for a Military Retiree? The real question is “What can a Military Retiree do for Delaware?” As 66% of states have already determined, attracting and retaining retired military personnel is positive for the community. What do they know that Delaware does not?

In addition, Military Retirees have their own “safety nets” to rely on, such as TriCare Medical and the VA. That is Federal money flowing into the State that Military Retirees can spend in local economies.

## **In Conclusion.**

Unless Delaware passes SB 201 in 2024 and ultimately makes 100% of Military retired pay tax-free, we will continue to lose a wealth of talent and skilled labor at a time when

the State is aging and needs relatively young, educated, healthy, motivated, long-lived, skilled workers who bring Federal dollars to our State to spend.

Please support Senator Buckson's bill, SB 201, but urge 100% tax-free status in the future. As long as Delaware is on the "partial" tax-free list, smart sergeants without former ties to Delaware will go to three dozen other states where their hard-earned pensions will be 100 percent tax-free.

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