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 Author: all she Wrote
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Think tank: Lift the tax on Social Security

ALL SHE WROTE

A lot of people entering the gates to Social Security Land are surprised to learn that the federal government taxes their benefits and so does the state. Most people these days don't have the luxury of a pension and will rely on their modest Social Security check.

The respected and non-partisan Think New Mexico proposes to repeal the state's tax on Social Security. Republicans like the proposal; Democrats like it but want to know more about its costs. Two reputable experts say the proposal is "misinformed and flawed."

Think New Mexico notes that New Mexico ranks third in seniors living in poverty at 12.2 percent, and that rate is likely to grow. Two-thirds of private-sector workers have no retirement savings. In fact, 80 percent have less than \$10,000 saved.

Only 13 states tax Social Security benefits, and in the last 10 years, eight have reduced the tax burden, so New Mexico now has the nation's second heaviest tax on Social Security. The average state tax on Social Security benefits is \$700 a year.

Also, you've already paid taxes on it. New Mexicans pay income tax on the portion of their paychecks taken for Social Security.

Think New Mexico has two other reforms in the same package.

The second is the New Mexico Saves Act. It would create a system of Individual Retirement Accounts funded by automatic payroll deductions in workplaces that don't already have a retirement savings plan. Small businesses would have a simple, inexpensive program for employees to begin saving for retirement.

According to studies, workers are 15 times more likely to save for retirement if they can contribute to a retirement plan through automatic payroll deductions, but two-thirds of private-sector employees, or 336,000 New Mexicans, don't have such a plan at work.

Think New Mexico's third proposal targets the state public pension funds. The organization would use some of the budget surplus for a one-time, \$700 million cash infusion or bridge loan to the Public Employees Retirement Association

(PERA). It would consolidate the investment management of PERA and Education Retirement Board (ERB) pension funds to achieve higher returns and lower fees and raise the qualifications of board members.

PERA board members, who oversee \$15.7 billion, aren't required to have any expertise in financial or investment management.

Jim O'Neill, former tax policy director of the state Taxation and Revenue Department, and former UNM economist Brian McDonald take issue with Think New Mexico's numbers. They say New Mexico is 17th, not third, in the percentage of seniors living in poverty. The percentage is 10 percent, they say, on par with the national average, 9.7 percent.

They argue that the state would lose \$73 million in revenues — money that could be spent on education, healthcare and child care programs — and make the state even more dependent on oil and gas revenues. And it could open the door to exempting other retirement income.

O'Neill and McDonald note that most poor seniors don't pay state income tax

now on Social Security, so there would be no benefit to them from the proposed changes.

"This proposal is principally an upper-middle/high-income tax cut masquerading as an anti-poverty measure," they wrote.

One appeal of a repeal is to draw more affluent retirees to the state. Earlier this year, financial news publisher Kiplinger profiled the 13 states that tax Social Security benefits.

"The Land of Enchantment is not a magical place for well-off retirees," Kiplinger advised. "Social Security benefits, retirement accounts and pensions are all taxable." New Mexico has a retirement-income exemption of up to \$8,000 and a generous property tax credit for low-income seniors, Kiplinger wrote, but the gross receipts tax hits most goods and services.

If the governor adds the proposals to her to-do list for legislators, there's a lot for them to chew on.

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 Contact Sherry Robinson at nmopinions.com. From *New Mexico News Services*. The views expressed in this column are those of the author.