To: Vermont House Ways and Means Committee February 19, 2019

Chairperson Ancel, and other Members of the House Committee on Ways and Means, Good afternoon. My name is Bob Ullrich, and I live in Shelburne. I am standing in for Lucy Beck who prepared the statement I will submit. I thank you for this opportunity to speak with you today and note that a previous letter was submitted to the Tax Structure Commission and subsequently forwarded to your committee. We also understand that other letters have been submitted and should be available to you.

- We acknowledge the work in June/July of 2018 that went into making changes to the tax structure, unlinking it from the Federal, reaching for revenue neutrality, and striving for fairness.

- Despite our extensive reading of JFO reports, and contacts with legislators, we continued to be bothered by the lack of evidence that the committees studied in any depth the impact of the removal of medical deductions on vulnerable populations.

- There were many comments on what a small percentage would be affected by the loss of medical deductions. But no balancing statements were apparent about how the State might be addressing the effects of hardship due to high medical costs. Beginning in 2019, at the Federal level only allowable medical expenses above 10% (up from 7.5% for 2018) of AGI will be deductible, thus reducing even further the number of Vermonters who would be itemizing on the Federal level, no matter what Vermont were to do. Obviously, this will reduce the cost to the state of Vermont were they to reinstate the medical deduction.

- It is fortunate indeed that it's a small percentage who have huge medical costs. But given the fragmented and often inadequate health care benefits in this country, and to the extent that deductibility of Out of Pocket medical costs is a small mitigation of such inequities, we think that a consideration of actual examples, rather than just consideration of numbers is necessary. The report, Principles of a High-Quality Tax System, presented by the JFO on January 19, emphasized Fairness as one pillar of a high-quality system. We submit that a broader consideration of how our health system nationally forces many individuals to pay out of pocket medical expenditures would reveal how the Legislation, as it stands, is unfair.

- Lucy Beck worked for 24 years at one of our top national rehabilitation hospitals, Rusk Institute of Rehabilitation Medicine, in New York City. She helped newly, and severely physically disabled adults and their families renovate their homes for wheelchair accessibility. Her first thought reading the changes in the VT 2018 Act was that the extremely hard-won national crusade back in the 80's and 90's for the right to claim necessary home modifications as a medical deduction was being erased. Ramps and bathroom modifications are vital to returning disabled adults to independence and the work force. And these are not little metal ramps to roll granny in and out, but substantial permanent ones long enough for the wheelchair user to propel themselves independently. These modifications aren't cheap, and families have always had to bear the costs on their own.

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- What about those working adults with chronic or inherited diseases who have high medical expenses that largely serve to keep them functioning and in the workforce?

- And what about those who have to buy high deductible health insurance and long-term care insurance on the open market place?

- And coming to the elderly, who were probably in the minds of legislators who worked on the Omnibus bill, who are this small percentage?

    - According to AARP's Public Policy Institute report "Seniors with High Unreimbursed Health Care Costs: Who are They?", November 2017:
        - "The medical expense tax deduction makes health care more affordable for people with significant Out of Pocket Expenses…In 2013, roughly 25.8 million beneficiaries in traditional Medicare…spent at least 10% of their income on OOP health care expenses. In 2015 the OOP expenses of tax filers claiming the deduction averaged $15,243. By comparison, mean Social Security income in 2013 for households headed by a person over 65, was $18,684 before taxes."

    - It is well known the elderly would far rather age in place, many of them in homes with a paid off mortgage. It is also well known that all of us would like to avoid significant long-term care needs, but reality is different than wishful thinking.

    - VT has a high proportion of elderly in our population. In the state and their local communities, they continue to support the services and infrastructure (including schools) via their taxes, charitable giving and countless hours of volunteer service.

    - When aging, individuals choose to deal with uncertainty about their capabilities by staying in their home, moving in with one of their children, or moving to a retirement community. Many of these communities only offer long-term care for certain conditions with significantly higher extra charges. In fact, some communities offer no long-term care at all.

    - Whether at home, in their children's home, or the retirement community – when health and cognitive functions deteriorate, the individual must move out to a nursing home. At their most vulnerable age, even when helped financially by their grown children, who are mostly middle-class wage earners, this is when high Out of Pocket costs are incurred, and they are not voluntary.

    - Qualifying for Medicaid at this point, of course shifts the burden to the general taxpayers.

    - So what attention do we pay in this scenario to assisting these individuals and families who ARE paying for this care from savings and current earnings?

- Regarding CCRC's we perceive an assumption about the assets of the vast majority of residents, compared to a few very high-income individuals. Most are middle class, needing to sell their house in order to pay the entrance fee.
    - We would point out that this is a socially responsible act; they choose to enter a CCRC, paying a higher amount to enter, so that later long-term care costs will be more stable. As with all insurance, this is a gamble, because they may never need that long-term care. In recognition of this, the government calculates a percentage each year that residents of CCRCs can claim as a medical deduction, first on their entrance fee and yearly on their monthly base fees. It is considered a pay forward on future care. Many CCRC residents calculate their ability to afford the CCRC based on the partial medical deductibility of those costs.

- Coming back to the high population of elderly in our State, and to business: job generation, employment, and taxes from wages:
    - A lot of business is generated in service to this population
    - We should encourage this trend. Some retirement communities have found it beneficial to aid their employees in educational training to acquire advanced skills, whether completing college training, or specifically training in a medical care field. At Wake Robin, residents contribute specifically to a staff scholarship fund. Administration has an ongoing program to train entry level staff from areas such as housekeeping, security, etc. in order that they may become Licensed Nurse Assistants and R.N.'s.
    - These people with enhanced skills, earn more income and pay more taxes.
    - As they move up the employment ladder, entry level positions continually become available.
    - If the self-sufficient elderly do not remain in our wonderful state, the economic benefits listed above will be greatly diminished.

- Many of the JFO documents indicate Vermont wants to dispel a stereotype as a high tax state. According to Wallethub.com Vermont ranks 50th in terms of retirement "Affordability" even though it ranks 6th in "Quality of Life" and 23rd in "Health Care".

- Returning to the preserved deduction for charitable contributions. The 2018 decision, having granted some tax relief for voluntary charitable contributions, but NONE to involuntary medical expenses does not reflect an understanding of how health care policy and finance interact. Instead it clearly favored charitable contributions due to efforts of lobbyists rather than an examination of need on the part of vulnerable populations.

THANK YOU FOR LISTENING TO OUR POSITION ON THIS MATTER.