

Economic Impact of Military Retirement Pay Tax Exemption in Vermont

Authors: Keith Baranow – Governor’s Veterans Advisory Council
Robert E. Burke – Director, Vermont Office of Veterans Affairs

This analysis explores the potential economic impact of exempting military retirement pay and survivor benefits from Vermont state income taxes. Vermont currently provides only a partial exemption. A full exemption, as seen in other New England states, could result in significant economic gains for the state.

Economic Impact Model Summary

Metric	Estimate
Estimated Military Retirees in Vermont	3,594 ¹
Average Annual Retirement Pay	\$27,576 ²
Reduced State Tax Revenue (Full Exemption)	\$3,900,000 ³
Total Local Spending (80% of retirement pay)	\$79,305,600 ⁴
Stimulated Economic Output (Multiplier 1.5)	\$118,958,400 ⁵

Narrative Summary

Military retirees contribute significantly to Vermont’s economy through pension income, workforce participation, and local spending. A full tax exemption on military retirement pay could result in an estimated \$3.9 million revenue loss. However, retirees would spend approximately \$79 million locally, generating \$119 million in total economic activity. Additionally, this could help address workforce shortages in critical sectors.

¹ <https://actuary.defense.gov/Portals/15/Cong%20Dist%202022%20v3.pdf?ver=13J1Z-ldxRlvJeXfnkReDg%3d%3d>

² Ibid

³ State of Vermont, Joint Fiscal Office Memorandum dtd. 31 January 2025.

⁴ Based on the economic assumption that 80% of fixed retirement income is spent locally in the community. Economic modeling assumption consistent with regional input-output models such as BEA’s RIMS-II and IMPLAN standards.

– See: *U.S. Bureau of Economic Analysis, RIMS-II Handbook*:
<https://www.bea.gov/resources/methodologies/rims-ii-user-guide>

⁵ A conservative economic multiplier of 1.5 reflects the ripple effect of retiree spending on the local economy. Multipliers of 1.5–2.0 are commonly used for public sector retiree spending.

– See: *National Conference of State Legislatures, Dynamic Modeling Principles*: <https://www.ncsl.org/>

Military retirees also bring leadership, technical, and healthcare expertise, boosting Vermont's economy and community resilience. Offering a full exemption would bring Vermont in line with other New England states and improve competitiveness.

Attracting Military Retirees and Veterans to Vermont

Eliminating state income taxes on military retirement pay positions Vermont as a more attractive destination for transitioning service members and military retirees. Currently, all other New England states—Maine, Massachusetts, Rhode Island, Connecticut, and tax-free New Hampshire—offer full exemptions or do not tax retirement income. This puts Vermont at a competitive disadvantage.

Military retirees are generally in their 40s or 50s and pursue second careers. By removing tax burdens on their pensions, Vermont can appeal to this population as they decide where to live, work, and raise families. This could lead to the following additional benefits:

- Increase in working-age population, helping to offset Vermont's demographic challenges.
- Boost to homeownership rates as military retirees tend to settle in communities long-term.
- Increased enrollment in schools and participation in civic life by military families.
- Filling gaps in the workforce, especially in fields like public safety, healthcare, and skilled trades.
- Enhancing Vermont's reputation as a veteran- and military-friendly state.

Estimated Annual Military Retirement Contributions by State

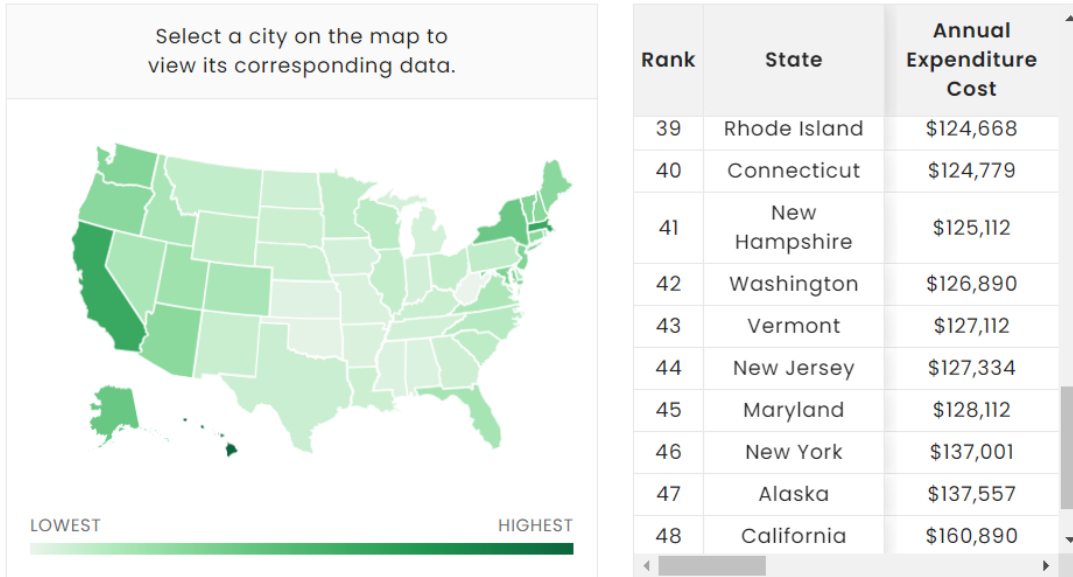
The following table provides estimated contributions of military retirees to each New England state's economy based on the number of retirees and an average annual military pension. These figures highlight the significant financial input military retirees bring to their communities.

State	Retirees	Avg. Annual Retirement Pay ⁶	Total Contribution
Massachusetts	15,844	\$28,764	\$455,868,000
Connecticut	9,003	\$30,468	\$274,320,000
Maine	11,080	\$30,384	\$336,708,000
New Hampshire	8,852	\$33,864	\$299,760,000
Rhode Island	4,699	\$33,744	\$158,604,000
Vermont	3,594	\$27,576	\$ 99,132,000

⁶ <https://actuary.defense.gov/Portals/15/Cong%20Dist%202022%20v3.pdf?ver=1311Z-ldxRlvJeXfmkReDg%3d%3d>

The Average Budget of a Middle-Class Family in America⁷

See the average budget of a middle-class family in every state, factoring in annual grocery, healthcare and mortgage costs as well as monthly and annual expenditures – ranked from cheapest to most expensive states.



⁷ https://www.gobankingrates.com/money/financial-planning/the-average-budget-of-a-middle-class-family-in-every-state/?utm_source=chatgpt.com