

Senate Committee on Economic Development, Housing and General Affairs

MG Gregory Knight testimony

Taxation of military retirement and survivor benefits puts Vermont at a significant disadvantage when recruiting and retaining service members for our Vermont National Guard and bringing and keeping talent and experience in Vermont's workforce. Approximately Two-Thirds of VTNG members are part-time - they are not only part of our National Guard but are also a vital part of our civilian workforce. Vermont has an acute workforce shortage in nearly every sector of the economy and every region of the state. Attracting and retaining more members of the Vermont National Guard will strengthen our state's workforce. Eliminating the tax on their retirement benefits means more may be likely to stay here after retirement and continue to be part of our workforce. At present, a majority of military retirees leave Vermont. Historic data from 2004 to 2019 shows incremental growth of the retiree population, from 3402 to 3904 – 502 in 15 years. From 2014 to 2021, **475 members** of the VTNG retired. Conversely, the total number of military retirees in Vermont experienced only an incremental increase. In short, far more military retirees leave Vermont than stay. A small sampling of senior members of the VTNG that have left Vermont.

LTC Jason Pelletier – Moved to NH

Chief Warrant Officer 5 Kim Siner and her husband, First Sergeant Mark Siner – Moved to NH

Brigadier General David Manfredi and his spouse Cathy – moved to Maine

Colonel Joyce Merrill and her husband - moved to Tennessee

Former Deputy Adjutant General Ken Gragg and his wife – moved to North Carolina

Chief Warrant Officer 5 Jim Woodworth and his wife Kim – moved to New York.

There are many more stories like this.

This loss of talent and revenue becomes a compounding problem. When these members of the VTNG leave Vermont, they take their pension, and that of their spouse, with them. They also take their experience, talent and earning capacity with them. In addition to the military retiree numbers, in the past year, the VTNG has lost 8 Airmen and 58 Soldiers who have moved out of Vermont for employment in other states, to find more robust support systems and to seek stability in retirement.

For military survivors – spouses of deceased military members participating in the Survivor Benefit Plan – a widow or widower of a military retiree will receive about 55% of the members retired pay. For example, a retired Sergeant First Class (E7) receives about \$4600 a month in military pension. The survivor would receive roughly \$2300 of that amount, which is taxed, further decreasing this benefit.

We have worked to grow the Vermont workforce through partnerships with Vermont employers through our Partnered Recruiting Initiative for Military and Employers (PRIME). This program provides VTNG members, their spouses and working age dependents an opportunity for an interview with participating employers – our partners. At this juncture, we have 25 employers as partners and 55 employers in the queue pending partnership. This tells me there is a significant demand for the very population we are

losing. The challenge remains one of bringing talent to Vermont and keeping the talent we have – the Vermont National Guard is invested in this effort.

Vermont can, and should, make itself more attractive, specifically in the prior service military market. These are individuals who have completed their first term of service and are separating from the active-duty military, normally after four to six years. Not taxing military pensions is an important tool in making Vermont a destination for prior-service active-duty military members as well as military retirees. The VTNG is focusing our efforts on recruiting specifically to this population of junior to mid-grade non-commissioned officers and junior officers. Many are eligible to continue their military service as traditional (part-time) members of the VTNG. These prior service members do not need to complete basic training and bring a depth of experience to Vermont and our Guard. They have a work ethic, some level of security clearance, and skills that can transfer into employment opportunities in Vermont. Further, this group typically falls into the exact age band our state is working to attract to live and raise their families.

It is incumbent upon us to make Vermont attractive, and work overtly to market Vermont and the VTNG to this prior-service and retiree population. For example: Fort Drum, NY is our closest major active-duty installation, comparatively small with a Soldier population of around 15,000. Anticipating their annual attrition rate (those separating from the service) at around 12%, that indicates 1,800 Soldiers separate from active service at Fort Drum every year. In consideration of other active-duty installations for both Air Force and Army across the globe, that number becomes exponential. Thus our interest in reaching out to them. For an active-duty retiree who serves for 20 years to earn a traditional longevity retirement, many are in their late

30s and early 40s if they joined the military between 18-21 years of age. This population, if we can attract them, have another career ahead of them in the civilian workforce.

Vermont must address its demographic crisis of fewer working-age residents and a growing number of senior citizens. There are simply not enough workers to keep our economy going or growing. For our state to be more affordable and attractive to the population we need, I ask that this crisis be addressed with a sense of pragmatic urgency. Having military pensions exempted from taxation provides a valuable tool to both Vermont and the Vermont National Guard to do just that. Incentivizing military service and post-service employment by reducing the tax burden makes sense, especially considering the vast majority of other states provide greater tax benefits to military retirees.

By leveraging the marketing capability of our state government and the VTNG, I believe we can make Vermont a destination for both military retirees and prior service members of the military who can continue service in our Guard. The VTNG can grow opportunities for Vermonters, our employers, colleges and universities, and increase our capacity and capability to respond to both our domestic and federal missions. This would also add tens of millions of dollars to the approximately \$152 million in pay and allowances currently coming to Vermont from the VTNG annually. While not taxing military pensions is not a cure-all, it will provide us a valuable tool to keep the talent we have and bring existing talent to Vermont.

