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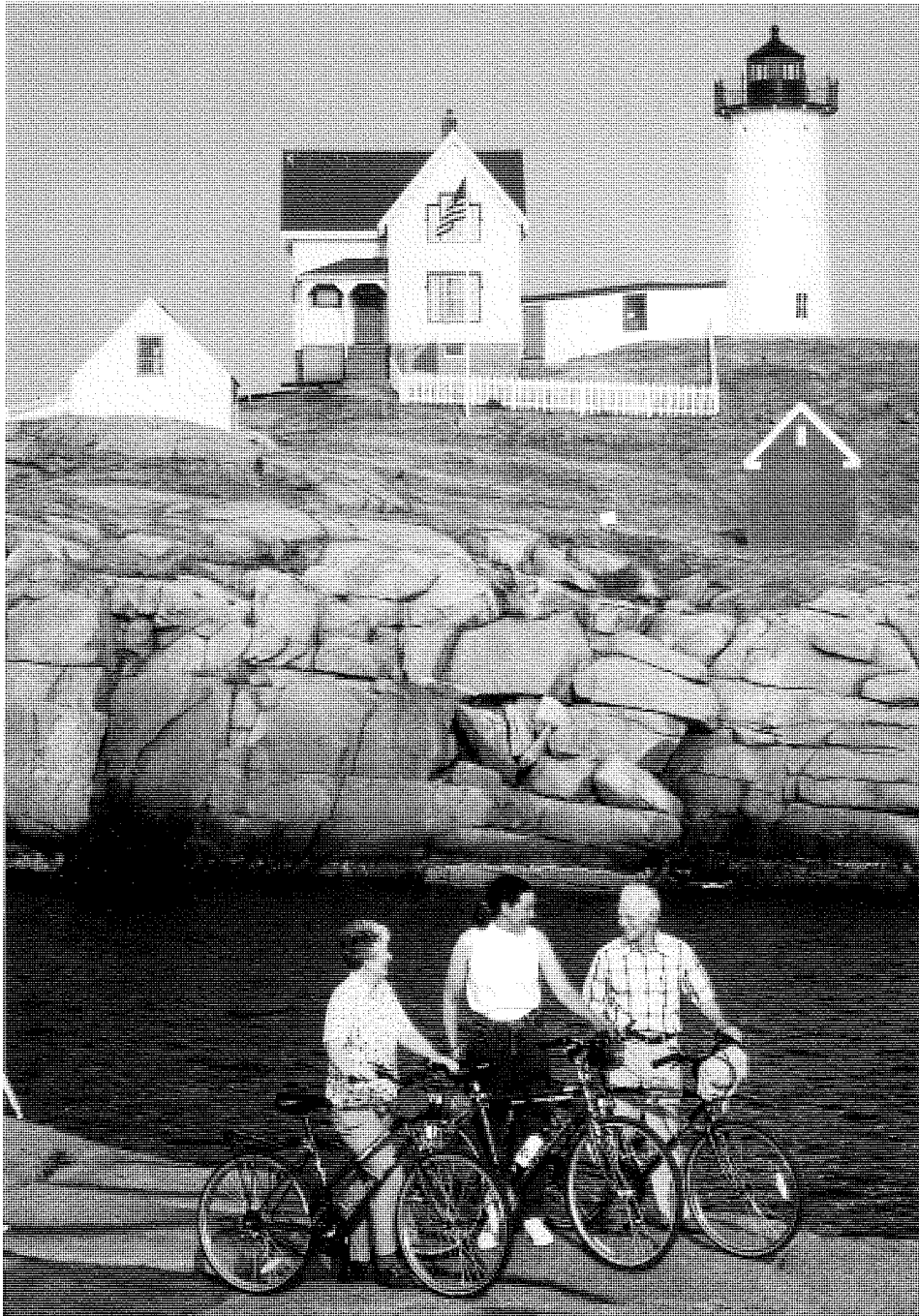
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A Golden Opportunity II

How Maine Can Enhance The Retirement Industry



**Maine State Planning Office
December 1999**

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The Retirement Industry

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I. EXECUTIVE SUMMARY

A few years ago, General Motors ran a very peppy TV ad that proclaimed - “This is not your father’s Oldsmobile. This is the new generation of Olds!”. The last portion of this jingle accurately describes the huge transformation that is occurring in our senior population. As the post World War II baby boomers age towards their golden years, our vision of the stereotypical Gramps and Granny is being shattered! The new generation of retirees is expected to enjoy longer, healthier lives. With our great focus on health, exercise and nutrition, life expectancy continues to grow, the rate of disability continues its descent and today’s Seniors are enjoying lives with far fewer limitations than their parents before them.

Our new Seniors are a generation of learners, spending an average of 28 hours a month in class or involved in learning projects. They are very engaged in their communities, giving generously of their time and financial resources to help others or to pursue their passions. They are savvy investors which has given them the option of retiring earlier, an option they are exercising with increasing frequency. They retire, not to drop out of the working world, but to shift into a lower gear, start a small business or pursue an entirely different “second career”. They’re the cyber-seniors. In fact, you likely won’t find Granny in her rocking chair anymore, she’s probably out birding, kayaking, taking a class or surfing the web.

But perhaps the most critical of all descriptors of this age bracket is its sheer size. Over the next 3 decades, the number of Americans aged 65 and above will double. The Baby Boomers have long been in the driver’s seat of the US economy and are surely not planning to turn over the wheel in their retirement. Their aging has huge implications for the demand for goods and services, for labor supply, and for Government taxing and spending.

So why is this new generation important to Maine? Well, for starters, our own population is aging, much like the US as a whole. Currently, there are 180,000 senior citizens living in Maine, representing 14% of our population. By 2020, nearly 1 in 5 Mainers will be over 65. Are we ready to serve and support our new village elders? The other compelling reason is at the heart of this report. With increasing life spans, health and financial resources, American retirees are enjoying far greater mobility. Today’s Seniors are shopping around to find the perfect place to start their second lives. They are looking for safe neighborhoods, a pristine environment, access to educational, cultural, and recreational activities. They’re prepared to plant their roots firmly in their new communities, giving generously of their time, their resources, their life experiences and skills. In fact, there are, today, 400,000 Americans who move in their retirement. Given Maine’s small population, we only have to capture a small portion of that activity to reap substantial benefits.

The benefits to Maine of actively seeking to attract and retain retirees are many:

- **The Retirement Industry offers significant multiplier effects.** Because the folks who tend to move in retirement are of above-average means, the ripple effects of their presence are more far-reaching. One study estimated that the economic value of 1 new retiree household is equal to that of 3.7 factory jobs.
- **Retirees put little pressure on our State’s resources** as they do not tend to bring

school-age children with them and they have the financial means to support their own long-term care when or if they need it.

- **Attracting Retirees is one viable strategy for addressing Maine's labor shortages** which are already constraining our ability to grow.
- **The Retirement Industry is green and growing.** Targeting this industry for development would mean tapping into a growth industry, not trying to fight a downward trend.
- And last, but certainly not least, **the benefits of any investment that we make in making Maine more senior friendly accrue to Maine residents**, not just to those from away.

Ironically, it is Maine's own residents that query with skeptical overtones, "Why would anyone in their right minds want to retire in Maine? Don't they know it's cold here in the winter and the taxes are outrageous?". In fact, it was the belief of many at the beginning of this research that we were experiencing far more out-migration of retirees than in-migration. But in reality - the reverse is true! From examining tax records of the more affluent retirees, we've found that the number of retirees moving into Maine is double the number moving out. And research by the Harvard professor who had been hired by the Libra Foundation to examine Maine's tax structure to determine how it was effecting retirement choices found that Maine taxes are not "outrageous" and broad-based tax reform is not likely to significantly alter retirement patterns. Two Maine tax practitioners confirmed these findings. That is not to say that lowering overall taxes would not enhance our efforts, it only suggests that we consider tax cuts that are targeted rather than broad if we wish to specifically influence retirement choices.

Over the past eight months, the Retirement Industry Advisory Council has been doing a tremendous amount of research in the areas of Quality of Life, Housing and Services, Tax and Finance and Marketing. Each Subcommittee has forwarded recommendations for the Governor's consideration. The 29 recommendations presented in the body of the report can be summarized as follows:

- **Maine should expand access to and increase awareness of cultural, educational and recreational activities for Seniors throughout the state.**
- **Steps should be taken to ensure that a wide array of housing and services options are available to our Senior Citizens along the full continuum of care.**
- **Targeted tax incentives should be implemented that encourage Seniors to keep their residency in Maine and that attract military retirees to Maine.**
- **The State should establish the Maine Retirement Resource Center that would guide retirement industry implementation plans and serve as the single point of contact on all retirement issues.**

As with any economic development endeavor, taking action to enhance the growth of the Retirement Industry in Maine will cost money, but our research indicates that it would be a worthwhile investment for our state. This industry is clean, rapidly growing and is an area in which we have already achieved some success, making this particular investment far less risky.

The 80 members of the Retirement Industry Advisory Council strongly suggest that the Governor and Legislature take action to make Maine the premiere retirement destination in the northeast. The time is right to turn this golden opportunity into a reality that benefits all Maine people.

II. INTRODUCTION

A. Background of the Golden Opportunity

In the early nineties, the Retirement Industry was one of seven industries identified in a visionary report, *Charting Maine's Future*, as holding great promise for Maine. When Governor King presented his Economic Development Strategy in early 1996, this industry was targeted for further study and development. A 42-member private sector Advisory Council was organized to research and prepare recommendations for the Governor's consideration. Their report, *A Golden Opportunity : How Maine Can Enhance the Retirement Industry*, was presented in January 1997. Since that time, several of the recommendations have been acted upon, over 1,000 copies of the report have been distributed and the public's awareness of and interest in this industry have heightened.

As momentum grew in early 99, the Advisory Council reconvened to reexamine the issues and to build on the foundation of the first report. The mission of the Council was broadened to include retention along with attraction. Like the first Council, virtually all of the work was done at the subcommittee level. Each subcommittee was chaired by a private sector individual with expertise in that particular topical area and was staffed by a State Government employee from the most appropriate agency.

This report, *The Golden Opportunity II*, represents an 8 month effort of 80 people. It builds on the solid foundation of the first report, but has taken the research to the next level. The recommendations in this report are, in many cases, more refined, based on critical research and presented in greater detail.

B. Demographics - The Driving Force

Only a decade ago the term "retirement industry" was virtually unheard of in Maine, and frankly, today it remains a mystery to many. A greater mystery to some is why we should even care about this so-called "industry".

The reality is, while this industry is not as easily defined or clearly visible as our traditional industries like paper or shipbuilding, we should care deeply because the opportunity before us is tremendous. As Section III explains in great detail, the aging of the Post World War II baby-boomers will, over the next few years, turn our world on end. In 30 years time, the number of Americans over the age of 65 will double, and within 50 years, the number over 85 will quadruple.

The longevity and lifestyle of senior citizens is undergoing a huge transformation, and the typical retiree of the future will likely shatter our image of Gramps and Granny! With the great emphasis on health, exercise and nutrition, life spans have lengthened considerably, by 30 years this century alone. Americans are living longer, fuller, healthier lives. They are becoming

increasingly sophisticated in saving and investing and, because of this, can afford to retire earlier. Modern transportation and telecommunication systems, along with their health and financial resources, allow seniors great mobility in their golden years. This mobility will only increase.

States like Florida have long enjoyed the influx of retirees and fully understand the financial resources they bring with them to their new homes. Florida currently enjoys net in-migration of 28,000 seniors annually and is projected to see that grow to 43,000 by 2020 (see Appendix J).

Maine ranks 19th in the nation in terms of senior citizen in-migration and, while the sheer number is small, is one of only 25 states to experience gains. Connecticut and Massachusetts rank 41st and 45th respectively and have a net outflow of retirees.

In fact, this huge demographic shift offers both opportunities and threats. Maine simply needs to decide whether it wants to take advantage of this economic force, or be trampled by it.

C. The Wisdom of This Investment

The Advisory Council's recommendation of using State resources to enhance the Retirement Industry in Maine must compete with many other worthy economic development ideas for rather scarce development dollars. There are, however, several compelling reasons as to why the Retirement Industry efforts should remain near the top of the State's economic development agenda.

- **The Retirement Industry offers significant economic multiplier effects.** As was mentioned in the original *Golden Opportunity* report, "Retirees who have moved to Maine are an economic force -- cumulatively as important, in many ways, as the opening of a factory or a data processing center. The reason is that each of these -- the retirees, the factory, the data processing center -- bring new money for circulation in the state, and it is this new money that drives growth and economic opportunities for the state's residents." In fact, a study done for one state estimated that every new retiree household has the equivalent economic effect of 3.7 factory jobs. Now this multiplier effect may vary widely from state to state, but even if the impact in Maine were only half that level, it would still be worthy of consideration.
- **Retirees put little pressure on the State's resources.** The majority of retiree households do not have school age children, therefore, this type of new household does not add to our K-12 educational costs. In addition, those who choose to move in their retirement tend to be active, healthy and of above-average means. The active retiree is less likely to need nursing home care for some years and, when and if the time comes that they do require long-term care, they are far more likely to have the means to pay for their own care, thus eliminating the concerns that these "new seniors" will put a major burden on our social services budget.
- **Promotion of the Retirement Industry is one viable strategy for addressing Maine's extremely slow population growth and tight labor-market conditions.**

Tight labor markets are already constraining growth in much of southern and coastal Maine, and with record high participation levels and the forecast for minimal population growth over the next few decades, the likelihood is that this will become an even bigger issue going forward. As is explained in some detail in Section III of this report, Americans are retiring earlier (many by their mid-50s), are healthier and are living longer. Further, our research shows that a significant portion of these retirees do not intend to drop out of the working world entirely, they just want to shift into a lower gear, start a small business in an area of great interest to them or pursue an entirely different “second career”. The relatively high educational attainment of these movers and shakers, their valuable skills and life experiences and, in many cases, their own financial assets make this group a new and very attractive “labor pool” from which Maine could greatly benefit. Military retirees, whose average age of retirement is in their 40s, offer the additional benefit of being technically trained and could, therefore, help to relieve the tremendous pressure Maine businesses are under to find technically skilled workers.

- **The Retirement Industry is green and growing.** As explained above, over the next 30 years, the number of Americans age 65 and above will double! The demands for goods and services by this age cohort will drive a sizable portion of economic activity. Many states, like Florida, the Carolinas, Arizona and Mississippi, are actively recruiting retirees to capture the burgeoning economic activity they bring. Unlike some industries, this industry is green. It brings in significant dollars without smokestacks or toxic waste.
- **The benefits of any investment we make accrue to our own Maine residents, not just to those “from away”.** Any investment that Maine makes in creating a environment which is “senior friendly” will not only serve as an attractant to those seeking a good place to live in their retirement, but will also benefit each and every Maine resident as they reach their golden years. Creating a solid infrastructure of housing and service options that cover the full continuum of care will provide opportunities for seniors to stay in their home state and will provide peace of mind to their families. Creating a tax structure that does not “force” retirees to declare their residency in other states will allow Maine residents to spend longer portions of the year in Maine, supporting their local economies. Finally, extending cultural, educational, and recreational opportunities to our older residents enriches the lives of all residents.

D. Recommendations at a Glance

Following several months of study, the four subcommittees have put forth a total of 29 recommendations for the Governor’s consideration. These ideas address a wide array of issues and opportunities. Some are very specific in nature, others broad. A few have significant costs associated with them, the majority are inexpensive but require some creative thought and staff effort. Each and every idea, on its own or in combination, would help to move us in the direction of creating an environment that is “senior-friendly” which would both enable more Maine

natives to retire in their home state and encourage more seniors from away to choose Maine as their retirement destination.

The background and a full explanation of the recommendations are presented in Section IV of this report. The recommendations are organized by their committee of origin:

Quality of Life

- ❖ **Replicate USM's successful Senior College throughout the state.**
- ❖ **Encourage all of the post-secondary institutions in Maine to offer more and better Elderhostels.**
- ❖ **Hold a statewide conference on "Aging and Spirituality" with a former US president as the keynote speaker.**
- ❖ **Convene the State's colleges and universities to set an agenda for elderlearning: new programs, structures, venues, and models of supported learning.**
- ❖ **Make opportunities for direct participation in the arts available for seniors in all communities.**
- ❖ **Strengthen the State's infrastructure for the arts, ensuring accessibility.**
- ❖ **Arts and heritage tourism should be encouraged and promoted to potential retirees.**
- ❖ **Create an inventory of opportunities for senior volunteerism.**
- ❖ **Create a corps of volunteer "greeters" to welcome and orient all new residents.**
- ❖ **Encourage a wide array of mentoring opportunities.**
- ❖ **Encourage new Maine seniors to switch their philanthropic giving from their previous home state to support Maine's private nonprofit organizations.**
- ❖ **Sponsor programs to educate older adults on the benefits of philanthropy: how to give, when to give, where to give, and how to maximize the efficacy of their contributions while reaping tax benefits.**
- ❖ **Encourage and fully utilize corporate matching programs.**

- ❖ **Enhance marketing of Maine's traditional outdoor sports by stressing senior-friendly sports, spectator sports and the vast number of environmentally related programs and trips available to them.**
- ❖ **Encourage private clubs, Y's, and Maine schools and colleges to make their facilities available to senior citizens.**
- ❖ **Maine's safety is a potent factor in making it an attractive retirement destination and should be stressed in promotional literature.**

Housing and Services

- ❖ **The State must take immediate action to provide much needed financial relief to the nursing homes and home care agencies.**
- ❖ **In order to recognize the realities of the current and evolving demand for a full range of senior housing and services options along the continuum of care, the State should modify the statutes governing the 3 existing governmental financing agencies (MSHA, MHHEFA, and FAME) that provide support and services to assisted housing and the healthcare industry.**
- ❖ **Extend financing opportunities to projects serving all income groups.**
- ❖ **Examine creative financing opportunities, including cross-agency credit enhancement, across the 3 governmental financing agencies that serve the housing and healthcare industries.**
- ❖ **The State of Maine should provide incentives for our existing physicians and allied health professionals to obtain training in geriatric medicine.**
- ❖ **It is essential that Maine immediately and effectively deal with the presently existing allied health labor shortage throughout the State.**
- ❖ **Maine should take an active role in educating the public with respect to the benefits of long-term care insurance.**
- ❖ **The State should educate and encourage employers to make long-term care insurance available to employees.**
- ❖ **Maine should create a comprehensive data base that categorizes senior housing options not by artificial distinctions but by amenities, facilities and available services.**

Tax and Finance

- ❖ **For the one-time tax event resulting from the sale of a proprietorship, partnership or closely held public business in which the taxpayer has played a significant and active role, Maine should offer some form of tax relief.**
- ❖ **Maine should offer a partial exemption for public pension income, including federal, state and military pensions.**

Marketing

- ❖ **Maine State Government should take a leadership role in developing the infrastructure to support and capitalize on the emerging retirement industry by creating the “Maine Retirement Resource Center”.**
- ❖ **Maine must launch a well thought out and well funded marketing campaign closely linked to Maine’s tourism promotion.**

III. The Changing Landscape of Aging in America¹

Richard Woodbury
Maine Center for Policy Research

Population aging represents one of the most important transitions and policy challenges of the next several decades. The increasing concentration of people at older ages will affect labor markets, health and long-term care markets, caregiving demands, and the financial burden of public and employer-sponsored benefit programs. Yet population aging is just one of a multitude of aging-related trends that are together changing the landscape of aging in the United States. These nationwide trends are presented here as background to policy discussions that may better prepare us for population aging and its implications in Maine.

Population Aging

Two factors are causing an aging of the population. The first is that the baby boom generation of Americans – those born between 1946 and 1964 – is getting older. In just seven years, this disproportionately large population group begins turning age 60. This, in itself, will lead to a rapid growth in the number and concentration of older Americans over the next several decades. The second factor causing an aging of the population is that people are living longer. Life expectancy at birth is about eight years longer today than it was in 1950, and almost thirty years longer than it was in 1900. Among those reaching age 65, the life expectancy of men is now 80 years, and the life expectancy of women is 84 years.²

Figure 1
U.S. Population Aged 65 and Older

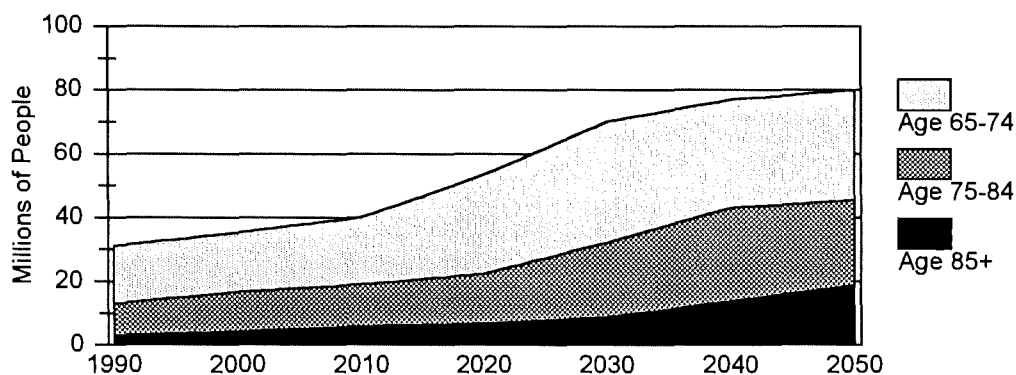


Figure 1 shows the government's current projections of the U.S. population at older ages.³ These projections indicate that the number of people aged 65 and older will double over the next 30 years; and the number aged 85 and older will quadruple over the next 50 years. Even these projections may underestimate this growth, if life expectancies continue to increase, as suggested by several prominent researchers.⁴

Improving Health and Functional Ability

Perhaps the greatest fear associated with population aging is that there will be a massive new burden of chronic illness and functional disability. The question is often raised about whether we are just keeping chronically ill people alive longer, or whether we are actually improving health at older ages. One of the most exciting findings from recent research in aging is that we seem to be improving health at the same time that we are extending life. As a result, the rates of disability in the population age 65 and older are actually declining, rather than rising (as one would have expected with an aging population). This trend is shown in figure 2.⁵ The line on the top of the figure represents the increasing disability rates that one would have expected between 1982 and 1994 with an aging population. The line on the bottom represents the actual decline in disability rates that took place over this period.

Figure 2. Percent of 65+ Population with Functional Limitation

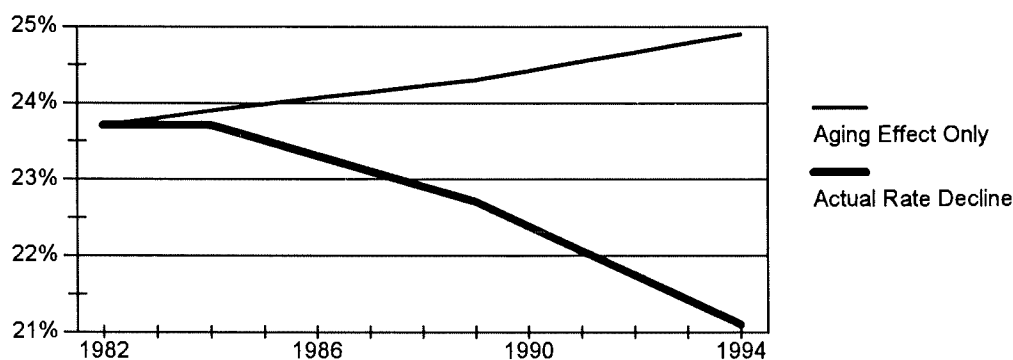


Table 1 presents similar data using four more specific functional ability measures.⁶ The table shows the percentage of the population in each of three age groups that reports difficulty in *seeing* the words or letters in ordinary newspaper print, *lifting* and carrying something as heavy as 10 pounds, *climbing* a flight of stairs without resting, or *walking* a quarter of a mile. Between 1984 and 1993, the percentage of people reporting these functional limitations declined in every age category, and for every functional ability measure studied.

**Table 1:
Adjusted Rates of Functional Limitation by Age Group
(Percent of Population Reporting Difficulty)**

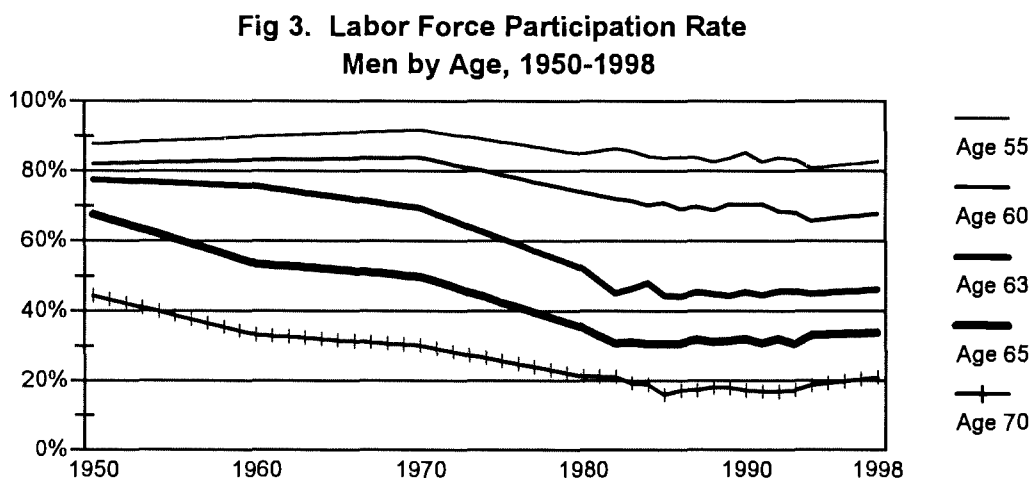
	Age 50-64		Age 65-79		Age 80+	
	1984	1993	1984	1993	1984	1993
Seeing	11.1	7.8	21.1	17.0	35.2	27.0
Lifting	16.6	13.5	30.5	24.6	51.5	41.0
Climbing	16.2	14.7	32.3	30.4	47.2	40.6
Walking	15.2	13.7	29.9	25.4	41.5	35.9

The economic implications of declining disability are potentially enormous. People without disabilities use less medical care, on average, require fewer caregiving services, and face fewer physical impediments to continued work. So the dramatic declines in chronic disability, especially if they continue, could moderate many of the most costly implications of population aging. This raises the question of whether analysts expect disability rates to continue to decline in the future, and what policies might be implemented to stimulate continued declines in disability.

While expectations about future disability rates are necessarily speculative, researchers point to a number of factors that may promote continued declines in disability.⁷ For example, continuing advances in medical technology and pharmaceutical product development are thought to be important in decreasing chronic illness and in better managing the functional limitations associated with chronic illness. Researchers also point to the continuing trend toward higher levels of education and financial resources among older Americans and their strong association with improved functional ability. And finally, ongoing improvements in health-related behavior in the population and continued government efforts in health promotion may lead to continued disability decline. This last factor in particular may provide an instrument for State policy, as investments in public health may have important payoffs in reducing chronic illness and functional disability at the State level.

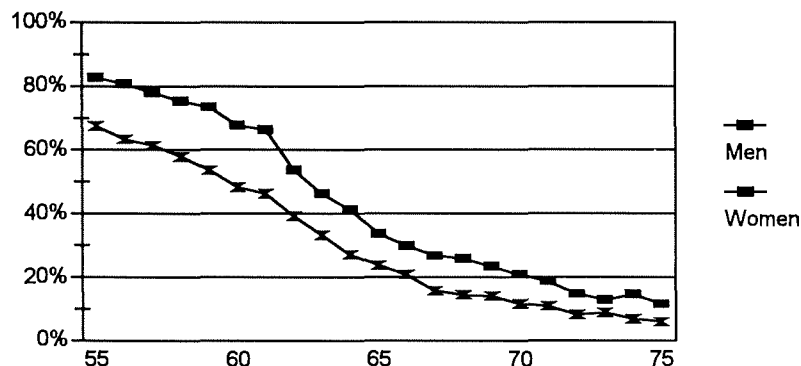
Early Retirement

Despite improvements in health and longevity, many workers in the United States retire young, often in their late 50's and early 60's. According to Labor Department estimates for 1998, only 20 percent of men and 11 percent of women are still working full-time at age 65; and only 33 percent of men and 23 percent of women are working even part-time. The early retirement occurring in the United States today is the result of a long-term trend. Figure 3 illustrates this long-term trend for men. The figure shows the labor force participation rates of men at ages 55, 60, 63, 65, and 70.⁸



Among older women, labor force participation rates combine two offsetting trends. First, more women of all ages are working in the formal labor market. This has increased labor force participation rates of women at all ages. Second, women (like men) are retiring earlier. This offsets the increase in labor force participation, but only among older women. Thus the total labor force participation rate of women between ages 25 and 59 has almost doubled since 1960, from 41 percent to 75 percent. Yet the labor force participation rate of women age 60 and older has remained steady at about 16 percent.

**Fig 4. Labor Force Participation Rate
Men and Women by Age, 1998**



Today, American workers start retiring in significant numbers around age 55; and the percentage of the population that continues working declines steadily thereafter. Figure 4 shows the age-specific pattern of labor force participation in 1998 (including part-time workers).⁹ Based on these participation rates, almost half of those working at age 55 will have fully retired from the labor market by age 63, and almost two-thirds will have retired by age 65.

Retirement Programs and Policies

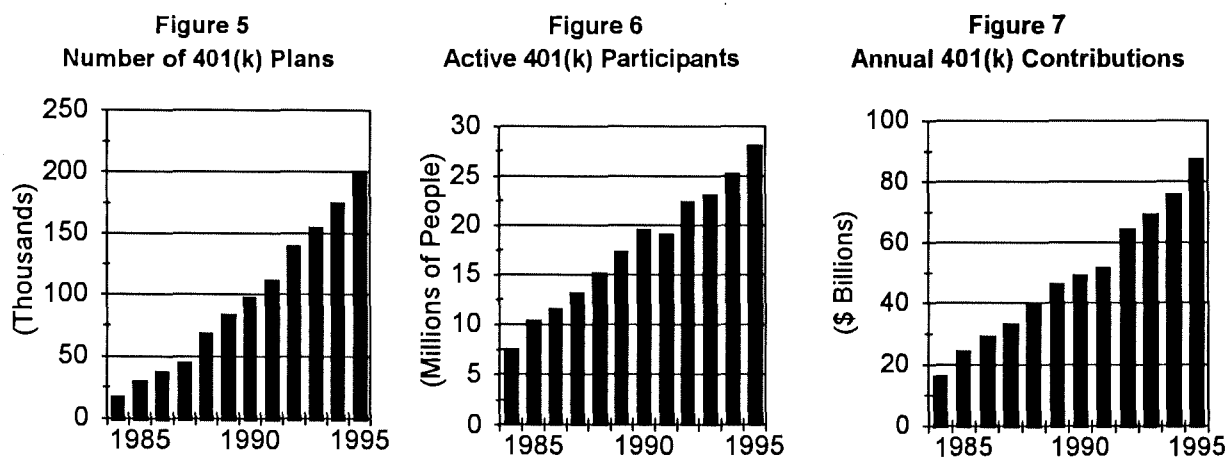
The combination of younger retirement and increasing longevity means that Americans are spending more years in retirement than at any time in history. From one point of view, this might be applauded as an achievement of economic growth. From another, it is a source of concern for the future. The financial pressures on Social Security, Medicare and Medicaid, and the need for cost-saving policy reforms are among the central concerns in Congress today. The question is how can these policies be reformed to assure the health and economic security of older Americans in the future at a cost that is sustainable in the long-term. Among the cost-saving reforms already enacted by Congress is an increase in the age of eligibility for “normal” Social Security benefits -- from age 65 to age 67. (Early retirement benefits will still be available at age 62, but they will be reduced by more than they have been in the past.) Other cost-saving reforms are likely in the future.

Changes are also happening at the employer level, as fewer employers are providing their retirees with traditional pension benefits, and fewer employers are providing post-retirement health insurance benefits. All of these reforms will increase the responsibility of individuals to provide for more of their own support at older ages, either through increased saving, or from continued work, or other means.

Retirement Saving

Retirement saving is another area of significant transition in the United States. Over the past decade, the number of households participating in employer-sponsored retirement savings plans (such as 401(k) plans) has increased dramatically. As a result of this widespread participation, these plans are becoming an increasingly important component of financial support at older ages. Because most 401(k) plans have only existed for a few years, their impact on future retirees will be far greater. Younger workers who are beginning to contribute to these plans today will find their savings compounded over a working career of thirty years or more.

In roughly half of U.S. households, one or both spouses is currently eligible to participate in a 401(k) plan. More than two-thirds of eligible employees make contributions to their 401(k) plans. And every year, the number of employers sponsoring plans increases, the number of participants in these plans increases, and the amount of savings taking place through these plans increases. Over 30 million Americans now participate actively in 401(k) plans, and over \$100 billion of contributions are made annually to these plans. Figures 5, 6 and 7 illustrate these trends.¹⁰ By extrapolating from current trends, researchers have estimated that 401(k) plans could contribute as much as Social Security to the financial well being of older Americans in the future.¹¹



A closely related finding from research in aging is that 401(k) plans stimulate new saving that would not have taken place if the plans had not been available. Again, this suggests a potential instrument for State policy. If more employers in Maine can be induced to establish 401(k) plans, then more employees in Maine will become active in saving for retirement. And these savings may be important in providing for the financial security of retirees in the future.

The Changing Landscape

Many factors are contributing to a changing landscape of aging in the United States. While the aging of the population has already had a large social and economic impact, much larger demographic changes are still ahead. There will also be changes in the public and private policies that provide benefits to older people. Reforms to these programs are likely to include increases in the age

of eligibility for particular benefits, or reduced benefit levels, or targeting of benefits to those most in need. This direction of reform, driven by the financial pressures of an aging population, suggests an important transition in the balance of responsibility for old age planning. The public can do less, so individuals must do more.

What should we be thinking about in Maine? Amidst the many policy challenges associated with population aging, improvements in functional ability and increases in targeted retirement saving are two national trends with widely beneficial implications. Both may be influenced (and extended) by policy at both the federal and State levels. And both have the potential to moderate the most costly implications of population aging. Continuing improvements in health and functional ability are not only providing a better quality of life in old age, they are also moderating the rapid growth in health and long-term care costs, and they are increasing people's physical capability of continued work (and continued earnings) at older ages. Thus current investments in health promotion may have important economic payoffs long into the future. Extending the opportunities for retirement saving may have similar payoffs. People employed at firms that sponsor 401(k) plans save significantly more, on average, than people employed at firms without them. Expanding 401(k) sponsorship, and encouraging firms to match employee contributions, even at low matching rates, could also prepare us better for retirement in the future. The hope – both nationally and here in Maine – is that we can build on the more positive trends in aging, and in so doing, prepare ourselves for the more challenging ones.

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IV. FINDINGS AND RECOMMENDATIONS

A. Quality of Life

Among the many demographic statistics with which we have been bombarded as we move toward the 21st century, one stands out dramatically: in slightly less than a century, the average life span in America has increased from 47 years in 1900 to 75 years in 1995. This is an incredible statistic; we are living 62.6% longer than our great grandparents. Moreover, all the outmoded stereotypes of aging have given way to the new reality that older adults tend to be cognitively sound, healthy, living independently, actively involved with their families, friends and communities, and playing a crucial role through their volunteer and philanthropic activities in strengthening the social safety net that undergirds those communities.

In short, retirees are playing new social roles in a whole new game of life. Retirement has taken on a new meaning as people can look forward to another twenty to thirty years after the age of 65. Some retire from one paid job to another, perhaps in a different field, perhaps on a more flexible time schedule. Some retire to build a new life filled with learning, creativity and cultural pursuits. Some retire to a busy life as volunteers, using their accumulated life skills to help others less fortunate than they. The rocking chair has been retired in favor of the exercise bicycle, and computers have been embraced by older adults who recognize them as a dandy new way to keep in touch with grandchildren, do research on favorite topics, and find new friends with whom to play chess or share their interest in Civil War history.

Given this expanded life span, quality of life has come to the fore as one of the primary considerations in choosing one's place of retirement. National research has shown that among the strongest factors that influence where a person decides to retire are natural and cultural amenities. The State of Maine's natural endowments, its rivers and ocean, its mountains and forests, the beauty of its relatively unspoiled environment are powerful attractions to retirees and contribute mightily to its quality of life. Other strong attractions are Maine's abundance of summer and winter sports activities, the lifestyles of its small communities, the relative lack of crime, and access to cultural and arts activities year round in its cities and villages. A number of things can be done to enhance what is already in place and provide even more reasons for people to decide that Maine is retirement the way it should be.

1. Elderlearning

This new breed of retirees is heavily involved in learning. They take courses in colleges or community centers, they join literature or foreign policy reading groups, they are regulars in our libraries and bookstores, their study/travel now accounts for one third of travel in the United States, and their self-generated learning projects consume an average of 28 hours per month. (1)

Recent research has dispelled the myth of inevitable cognitive decline as one ages. We now know that in the absence of physiological disease, we can continue to

learn up through our eighties and even nineties. Just as the best insurance for a healthy body is physical exercise, the best insurance for a healthy mind is mental exercise. Simply put, it's "use it or lose it" if one is to retain one's intellectual powers over the entire life span.

But even if it were not a prescription for cognitive health, many older persons have turned to learning to catch up on what they may have missed when younger, to follow up on their hobbies or interests, to meet like-minded people, to work at creative pursuits, or to equip themselves for new kinds of volunteer or paid work. Many of these older persons tend to relocate near college and university campuses that offer them educational opportunities both in the classroom and in lectures, discussions and performances on campus. Maine's existing educational facilities constitute a natural asset to attract retirees, and, in turn, they can benefit from these retirees' contributions in time, intellectual energy and money.

Recommendations:

- ❖ **The Senior College model, so successfully begun at the University of Southern Maine, should be replicated throughout the state on campuses or in learning centers in ways that respond to the unique needs of the retirees in each community.**

- ❖ **All of the post-secondary institutions in Maine, public and private, should be strongly encouraged to offer more and better Elderhostels.**

Retirees frequently use Elderhostel travel as a way of finding and assessing places to which they might wish to retire. With some exceptions, current offerings in Maine do not portray Maine at its intellectual and cultural best.

- ❖ **Planning efforts to hold a year 2000 statewide conference on "Aging and Spirituality," with former president Jimmy Carter or some other notable as the keynote speaker, should be continued at high levels.**

A well-crafted agenda for this conference and suitable publicity will disseminate the concept that Maine is a place that cares about its older citizens and has progressive ideas about their needs.

- ❖ **The State's colleges and universities, public and private, should be convened to set an agenda for elderlearning: new programs, structures, venues, and models of supported learning.**

Research is teaching us that older adult learners care little about grades, credit, certificates, and degrees, but they do care, passionately, about learning. Some creative thought needs to be given as to where, how and why this learning is to be encouraged and supported in ways that benefit both the learners and their

communities.

2. The Arts

An important component in older adults' lives is the opportunity to view, listen to, or participate in the arts. For many people, the time after retirement is enriched by their involvement in writing, painting, music and other creative pursuits. The arts add to the quality of life in many ways:

- they serve the existing population while attracting the new
- they educate and improve us as individuals
- they function to bring in revenues far in excess of ticket sales
- they bring communities together
- they provide opportunities for direct participation and for volunteer activities
- they stretch our imagination, appealing to our heads, hearts and spirits

Maine is blessed with a strong arts community. The State can build on its assets and existing arts organizations to attract more retirees to live in Maine.

Recommendations:

- ❖ **Make opportunities for direct participation in the arts available for seniors in all communities.**

Existing institutions such as the Maine College of Art, Haystack Mountain School of Crafts, Round Top Center for the Arts, the Northeast Historic Film Center, the Portland Conservatory of Music, the Portland Stage Company and the Maine State Summer Theater (among many others) should be encouraged to expand their programs and use of facilities for seniors. Inter-generational classes and hands-on workshop sessions that actively engage their creativity add greatly to the quality of older adults' lives.

- ❖ **Strengthen the State's infrastructure for the arts, ensuring accessibility.**

There is a compelling need in Maine for easily accessible arts facilities. Communities targeted as retirement magnets need to have facilities to house performance and visual arts while providing a central identity to the community. Arts centers can easily house lecture series and provide meeting space for elderlearning activities. These centers would also allow more year-round programming. (see Appendix F for suggestions on how to finance the Arts infrastructure.)

- ❖ **Arts and heritage tourism should be encouraged as a way of promoting**

Maine's cultural, historical and scenic assets to potential retirees who constitute the bulk of recreational travelers.

3. Volunteerism and Philanthropy

Thousands of recent retirees to Maine have been drawn into the center of their new communities by their involvement in volunteer activities. Maine nonprofit organizations welcome the newcomers and find ways to capitalize on the talents and expertise they bring with them. Experienced senior citizens are sought as volunteers and consultants in a wide variety of fields and settings. Maine's very underdevelopment as a retirement haven heightens its need for active retirees and, in turn, offers them a chance to do volunteer work that is vitally important.

Retirees report that their help is eagerly sought – the doors are open — and that through the work they do with local social service, cultural, educational and health organizations, they have gained new friends and a better understanding of their new communities, as well as the welcome sense that they are helping the people of this state. Volunteering is good both for the quality of life of the active volunteer and for the quality of life of the community.

Recommendations:

❖ **Create an inventory of opportunities for senior volunteerism.**

This inventory should include both structured programs and informal voluntary arrangements, and the results should be incorporated into the state's marketing efforts. There are three statewide programs that specialize in placing retirees in appropriate positions: Retired Senior Volunteer Program (RSVP); Service Corps of Retired Executives (SCORE); and Reach Out Maine Alliance (ROMA). (see Appendix G for further information on these agencies.)

❖ **Create a corps of volunteer “greeters” to help potential and actual retirees get a positive orientation to Maine.**

The Maine greeters would serve as guides to cultural and educational resources, shopping, recreational facilities, social service agencies, health services, local government and citizens' organizations, and community values and living patterns. A possible model is “Big Apple Greeter,” a nonprofit agency in New York City that assigns specially trained volunteers to familiarize newcomers with the city's resources. While Big Apple Greeter is designed mainly for tourists, the Maine service would be geared to new residents – younger families as well as retirees.

❖ **Encourage opportunities for mentoring programs that work with “at risk”**

youth or through court-appointed special advocate programs such as Jumpstart in Bath. Similarly, older adults may want to volunteer to mentor recent émigrés from other cultures or to work with younger people in an apprenticeship mode to teach traditional crafts.

Philanthropy is another avenue for recent retirees to connect with their new communities in meaningful ways. Many retirees have developed over a lifetime a generous pattern of charitable and philanthropic giving, both as individuals and through their business affiliations. The Maine Community Foundation reports that the majority of its funds are from people 60 or over, a rich and much needed resource for the State.

Recommendations:

- ❖ **Encourage retired persons living in Maine to switch their philanthropic giving from their previous home state to support Maine's private nonprofit organizations. This effort should also include part-time residents of Maine who have may never have thought of the needs of the communities in which they spend their summers.**
- ❖ **Sponsor programs to educate older adults on the benefits of philanthropy: how to give, when to give, where to give, and how to maximize the efficacy of their contributions while reaping tax benefits.**
- ❖ **Be sure that we have tapped the potential resources of Maine retirees whose former employers will "match" their contributions. These matching funds can be a significant source of revenue, but sometimes donors ignore or forget that they have access to extra support for the organizations to which they contribute.**

NOTE: It has been suggested that there should also be a concerted effort on the part of individuals and the State to persuade Maine-based companies to institute programs to match their employees' charitable contributions.

4. Recreation

The quality of one's life at any age, as well as one's health, is significantly enhanced by the choice of the recreational activities available.

Recommendations:

- ❖ **Although Maine is well known as rich in opportunities for the traditional**

outdoor sports such as sailing, boating, hiking, and mountain climbing, we should also be stressing: 1) such senior-friendly sports as bicycling, birding, kayaking, beach-walking and golf; 2) spectator sports such as hockey, football, soccer and baseball; and 3) the vast number of environmentally-related programs and trips sponsored by organizations such as the Audubon Society, the Nature Conservancy, and various local eco-friendly groups. In addition, promotional literature should mention the policy of no admission charge to seniors in State Parks.

- ❖ The state has a need for more health club facilities and indoor pools. Private clubs, Y's, and Maine schools and colleges should be persuaded to make their facilities available to senior citizens.
- ❖ Maine is one of the safest places in the USA, where one can walk in neighborhoods or in the parks without fear. Maine's safety is a potent factor in making it an attractive retirement destination and should be stressed in promotional literature.

B. Housing and Services

Although wealth does allow many people choices which they might not otherwise have, and while public resources often given those of modest means more choices, barriers in the market prevent even the affluent from opportunities – even those they can afford. In addition to providing affordable options, government should work to remove unnecessary and inappropriate barriers to the market that prevent the creation of a broad range of living choices. Government should also recognize the interplay between housing and health care services for the senior members of our population. Health security along the entire continuum of care is a critical issue for retirees. Wealth doesn't matter if there are no primary care physicians schooled in geriatrics available to care for you. Wealth also doesn't matter if the only available facilities are inadequate to meet either present or future needs.

1. Financing of Existing and Future Facilities and Services

As our state population ages, the need for a healthy long-term care industry capable of providing a true continuum of care will become critical to the vitality of any retirement industry development in Maine. It is, therefore, essential that in addition to developing policy and laws which encourage the development of alternatives to traditional nursing home care, the State take action to strengthen and ensure the continued existence of the nursing home industry, recognizing that it is an important and vital part of the overall continuum of care which is needed. A broad array of housing and service options will become increasingly important as the State's senior population numbers grow.

Furthermore, because of the rapidly changing structure of the types of housing and related services and the manner in which those services are provided to the senior population, it is also essential that the existing governmental finance agencies and mechanisms for assisted housing and healthcare financing modify their respective procedures and statutes to be consistent with the reality of those changes.

Recommendations:

- ❖ **The State must take immediate action to provide much needed financial relief to the nursing homes and home care agencies.**
- ❖ **In order to recognize the realities of the current and evolving demand for a full range of senior housing and services options along the continuum of care, the State should modify the statutes governing the 3 existing governmental financing agencies [namely; the Maine State Housing Authority (MSHA), the Maine Health and Higher Educational Facilities Authority (MHHEFA), and the Finance**

Authority of Maine (FAME)] that provide support and services to assisted housing and the healthcare industry.

At the present time, the Maine State Housing Authority (MSHA) provides relatively low-cost financing, however, it was created for the sole purpose of providing affordable housing to Maine's low and moderate income residents.

The Maine Health and Higher Educational Facilities Authority (MHHEFA) has traditionally provided low-cost financing for healthcare facilities in Maine. Unfortunately, many of the types of housing and services that currently exist and are being developed in the State of Maine, as well as in other jurisdictions, to meet the needs of our senior population in their years of retirement do not fit into the current jurisdictional definitions contained in the statute which created MHHEFA.

The third major existing public financing agency in the State of Maine is the Finance Authority of Maine (FAME). Although FAME has done some financing for retirement housing, again, because of the restrictions placed on the types of projects and programs which that agency can operate to assist in financing, its ability to provide cost-effective financing for senior housing projects is very limited at the present time.

❖ **Extend financing opportunities to projects serving all income groups.**

One of the results of the present failure of the statutes creating the above-described public financing agencies in Maine to keep up with the developments of different types of senior housing and service programs is that a gap has been created with respect to the availability of cost-effective long-term financing for retirement facilities and programs which serve persons with annual incomes in the \$18,000 to \$30,000 range. Persons with incomes below this range would qualify to reside in facilities that could be financed through MSHA and persons with incomes higher than this could at least in some circumstances afford essentially to reside in so-called "market rate" facilities which are financed through more traditional and more expensive means than those offered by the above-described, existing public agencies. Furthermore, although some persons presently in the above-cited income range are residing in existing facilities which are considered at the higher end of the market, the only reason that they are able to do so is

through a combination of spending down their assets and through assistance through other sources such as other family members.

If Maine is going to be competitive in terms of attracting even the more well-to-do retirees from outside the state, it is also important that it provide cost effective financing for even those projects that under present circumstances would be considered market rate or high end projects that are marketed to those persons who can afford the higher costs that result from the more expensive, traditional financing those projects use at the present time. Although some will debate whether public financing mechanisms should be used to help reduce the overall costs of providing retirement facilities and services to those who are considered to be able to well afford to pay the additional costs resulting from non-public, more traditional financing of those projects, as well as for those who are less able to afford to reside in such projects, if Maine is going to be competitive in the marketplace with respect to encouraging people to see Maine as a retirement destination, it is essential that at least some public financing be made available for all types and levels of retirement living facilities and projects as a means of lowering the overall development and operating costs which must be passed on to the consuming public.

❖ **Examine creative financing opportunities, including cross-agency credit enhancement, across the 3 governmental financing agencies that serve the housing and healthcare industries.**

In order to accomplish the express goal of expanding and modifying the statutes creating the above-described three public financing agencies to better serve the facilities and programs in the so-called middle and higher end of the retirement market, it is essential that the State work to develop mechanisms to create credit enhancements that will lower the overall costs of borrowing to finance the construction and operation of these retirement facilities and programs. Some of the mechanisms that have already been used by other states in order to effectuate this policy change are as follows:

- The use of the moral obligation of the State of Maine in a specific and controlled manner such as the statute which was enacted several years ago which authorized FAME to issue moral obligation bonds not to exceed a specified amount to finance the buyout by the electric utilities in the state of

non-utility generating (NUG) contracts in order to permit those utilities to reduce their costs of operating.

- The blending of private bond insurance and state backed insurance;
- The use of existing public funds such as retirement system reserves and sewer and drinking water revolving loan funds to “cross collateralize” a loan or bond issue;
- The creation of an industry funded capital reserve fund that could also be used to collateralize loans or bond issues.

A number of the above-described examples could be used in combination with each other as a means of minimizing and spreading any risk to any one source that would be used as a credit enhancement while still achieving the overall desirable goal of lowering the cost of financing for retirement facilities and projects. Furthermore, even in those instances where credit enhancements, such as the State’s moral obligation, were not used or available, the ability to finance smaller projects would be greatly enhanced if a mechanism was created from a legal and regulatory standpoint which would allow several of these projects to issue bonds using the pooled approach presently used by MHHEFA.

The above-described three existing state agencies clearly have the expertise and experience to be able to work together to administer the type of credit enhancement program that is recommended without the necessity of creating any type of new agency or mechanism within the state for this purpose.

2. Healthcare Services

Recommendations:

- ❖ **The State of Maine should provide incentives for our existing physicians and allied health professionals to obtain training in geriatric medicine.**

At the present time, the best information available indicates that we have approximately two dozen practicing physicians through the State of Maine who hold themselves out as having either a specialty or subspecialty in geriatrics. As indicated in the opening paragraph of this portion of the report, wealth does not matter if there are no primary care physicians available who are schooled in geriatrics. It is, therefore, essential that the State of Maine work to provide the

means for our existing practicing physicians (probably family practitioners and internists) to obtain the necessary training through continuing medical education to raise their level of expertise in this particular area of the practice where we know there will be a dramatically increasing need for those types of services.

The state should work with the Maine Medical Association, the Maine Osteopathic Association and the Maine Hospital Association as well as through the Maine Medical Center affiliation with the University of Vermont School of Medicine, the MaineGeneral Medical Center's affiliation with the Dartmouth Medical School, and the University of New England Division on Aging, to develop these very necessary continuing education programs and courses for our existing physician population in order to provide expanded training options in geriatric medicine to better assure access to physician expertise in all areas of the State.

Maine should also expand its loan forgiveness program for physicians which is administered by FAME in a manner that would encourage physicians to enter the specialized field of geriatrics and practice here in the State of Maine.

- ❖ **It is essential that Maine immediately and effectively deal with the presently existing allied health labor shortage throughout the State.**

Furthermore, it is as important to provide much needed specialized training of allied health personnel, including but not limited to CNAs and PCAs, as it is for physicians, since it is these allied health professionals who have a more frequent and intimate contact with the members of our senior population.

3. Long-Term Care Insurance

Recommendations:

- ❖ **Maine should take an active role in educating the public with respect to the benefits of long-term care insurance.**

The State of Maine, as a matter of public policy, should also take an active role in better educating the general public of all levels of income and means with respect to the benefits that can be obtained in a person's senior years as a result of the purchase of long-term care insurance to cover what can be the very extensive costs for the services that a person requires as he or she ages. Furthermore,

long-term care insurance could also provide an alternative source of funding the cost of services for those who cannot afford those services and who would normally be relying upon governmental sources for the payment of the costs of those services. Although the funds that would be necessary to purchase long-term insurance for those who cannot afford it would be public funds, the present use of these funds to purchase insurance which would pay for the future cost of those services would prove to be a much more cost effective means of paying for those services as opposed to using those same public funds to pay directly for the services when they are required by those who cannot afford to pay for them. The State should also look at demonstration projects already underway in other states which tie the purchase of long-term care insurance to the ability to participate in the Medicaid program without an asset spend down.

- ❖ **The State should educate and encourage employers to make long-term care insurance available to employees.**

Although such programs usually are entirely employee funded, they allow employees to cover their spouses, parents, in-laws and other family members using a group insurance approach, which is much less expensive than to purchase such insurance on an individual basis.

4. Housing and Related Support Services

Recommendation:

- ❖ **Maine should create a comprehensive data base that categorizes senior housing options not by artificial distinctions but by amenities, facilities and available services.**

In order to encourage people to see Maine as a retirement destination it is imperative that we first take stock of exactly what Maine has to offer, not only with respect to the quality of life, but more specifically with respect to the facilities and related services that are presently available throughout the State. In the past, we have consistently had problems with respect to dealing with the artificial distinctions of different types of facilities and categories of care, such as skilled nursing facilities, intermediate care facilities, board and care homes, residential care facilities, assisted living facilities and congregate facilities. Although the Maine

Legislature a few years ago recognized the artificiality of these distinctions by passing landmark legislation to encourage aging in place, there continue to be, at least from a licensing standpoint, different categories of facilities and related care services. This continues to present a very confusing array of facilities and services to the senior population of our State and their families.

In order to deal with the above-described confusing situation for senior citizens, Maine should collect the relevant data for the purpose of building a database that is not based upon the above-described artificial distinctions, but rather specifically deals with the different types of housing and related amenities and support services which are presently available within the State of Maine. Only through this approach will relevant information be provided to the consuming public to make informed decisions with respect to their choice of retirement living and related services.

Once the database has been created, a website should be built and maintained so that any changes in existing facilities and services as well as new facilities and services being created can be included as part of the database and the website that will be accessible to the consuming public.

Whatever the final decision is on the home of the proposed website and its final design, it should be the only site in the State of Maine to obtain and maintain current and specific information on senior citizen housing and related services. The information contained and maintained in the proposed website would also be a major component of any effort to market Maine as a retirement destination.

C. Tax and Finance

1. Background and Commonly Held Beliefs

In the 1997 Golden Opportunity report, the Tax and Finance subcommittee recommended that Maine:

- Reduce the total tax burden for all Maine Citizens,
- Not lower taxes for wealthier retirees at that time,
- Expand the state tax subtraction for long term health care insurance,
- Repeal the “Rule against Perpetuities”.

Maine’s Legislature has acted on the above recommendations. There have been significant reductions to Maine’s sales and property taxes and more modest modifications to the state’s personal income tax. The Legislature also expanded the reduction for long-term healthcare insurance and, in 1999, it repealed the Rule against Perpetuities.

After reviewing the 1997 Report, its recommendations and subsequent Legislative actions, the 1999 Retirement Tax and Finance Subcommittee determined that it must prioritize its recommendations, and in the limited amount of time available deal only with the most pressing retiree tax issues. Like the 1997 group, participants perceived Maine as a “high tax” state and there was consensus that the high Maine income tax resulted in a significant barrier to attracting and retaining retirees. There was considerable anecdotal evidence that wealthy Maine retirees were departing the state as a result of the high taxes and that it was difficult to market Maine to potential out-of-state retirees because of the tax burden.

From the first meeting, the Subcommittee members expected that the most significant barrier to retaining and attracting retirees was Maine’s high top marginal individual income tax rate (8.5%) combined with the relatively low amount of taxable income (\$16,500 for individuals, \$33,000 for joint returns) needed to reach that top rate. The 1997 Report cited Maine as ranking 10th in the country in terms of tax burden and provided some statistical support for this conclusion. More recently, at least one 1999 study has ranked Maine as high as third in terms of its tax burden as a share of personal income.

However, this Subcommittee's original premise that Maine’s comparatively high individual income tax rates would act as a considerable barrier to attracting or retaining retirees was refuted by data provided by a variety of sources. Maine Revenue Service data, supported by Census and IRS data, show that more retirees have moved into Maine than have left, and more wealthy retirees have moved into Maine than have left.

That does not mean that Maine’s individual income tax code is competitive with so-called retiree magnet states. Clearly, there are reasons other than Maine’s tax policy which allow Maine to attract a net gain in the number of retirees moving into the state. Changes to Maine’s individual

income tax would, however, make Maine even more attractive and more competitive as a location for retirees. In fact, the Subcommittee concluded that, but for Maine's comparatively high tax burden, Maine would have gained many more retirees.

2. Updated Research on Maine's Tax Burden and Its Impact on Retirees Choosing Maine As A Retirement Location

The Subcommittee met twice with John D. Donahue from Harvard University's John F. Kennedy School of Government's Center for Business and Government. Donahue conducted a Study of Maine's tax structure and its impact on retirement in the State of Maine for the Libra Foundation. The Libra Foundation provided the Governor with the final report, and the Harvard group shared its research and conclusions with this Subcommittee.

Maine Revenue Services provided data both to the Subcommittee and to the Libra Foundation study. This data was developed from Maine returns and also from information gathered by the IRS. Finally, the Subcommittee invited local tax and financial planners to report on experience from their practice.

Both our Subcommittee and the Harvard study sought to answer the questions whether Maine's tax code "drove away" retirees, and what changes could be made to Maine's tax code that would make Maine more attractive for retirees.

At the final Subcommittee meeting Mr. Donahue shared some of the data gathered for the Harvard study. Specifically, he reviewed comparative data between Maine and other states regarding tax policy. Their research (based on Census data) comparing in- and out-migration for Maine and New Hampshire showed the following:

Households heads 55 or older in 1990	Left Maine for another state between 1985 and 1990	Came to Maine from another state between 1985 and 1990
1990 income under \$45,000	2.6 percent	5.0 percent
1990 income \$45,000 or over	6.2 percent	7.4 percent

Households heads 55 or older in 1990	Left New Hampshire for another state between 1985 and 1990	Came to New Hampshire from another state between 1985 and 1990
1990 income under \$45,000	7.1 percent	9.1 percent
1990 income \$45,000 or over	5.8 percent	6.5 percent

A 1995 Census Bureau report also showed that 33,000 more people moved into Maine from other states between 1985 and 1990 than departed Maine, a significant net gain to the state.

To assist in answering the two key questions, Donahue's study compared Maine's tax burden on retirees to tax policy in other states. Also, with data supplied from the Maine Revenue Service, the group reviewed whether there was in-migration or (as expected) out-migration of retirees from Maine based on the number of tax returns filed by residents over age 65 in Maine.

Maine Revenue Services Data:

The migration information listed below is for Maine taxpayers with a tax liability of greater than \$5,000, which roughly equates to Maine gross state income of \$100,000.

*Total population, in-migration of taxpayers (All ages, with tax liability > \$5,000) = 1,135
(Did not file 1997 return, but did file 1998 return)

*Total population, out-migration of taxpayers (All ages, with tax liability > \$5,000) = 562
(Filed 1997 returns, but did not file 1998 return)

The new Maine taxpayers paid \$12.2 million to the State of Maine, while those departing the state had paid \$ 6.5 million in taxes.

Maine Revenue Services also examined Maine tax returns for those taxpayers over the age of 65 and with tax liability exceeding \$5,000 as follows:

*Inbound residents over age 65 (with tax liability > \$5,000) = 150
(Did not file 1997 return, but did file 1998 return)
(revenue totals \$2.1 million)

*Outbound residents over age 65 (with tax liability > \$5,000) = 72
(Filed 1997 returns, but did not file 1998 return) (revenue totals \$1.0 million)

Summarizing this data, more than twice as many taxpayers who paid more than \$5,000 in taxes to the State of Maine moved into Maine as moved out- but more surprising, more than twice as many taxpayers who were over age 65 and paid more than \$5,000 in taxes to the State of Maine, also moved into Maine! Maine Revenue Service reported that those taxpayers paying more than \$5,000 to Maine represent the top 5% of filers.

Local tax and financial planning professionals (Gain Francis of Price Waterhouse Coopers and James Jackson, Vice President, Tucker Anthony) reported about their individual experiences with high net worth, high-income clients, defined as those with more than \$100,000 in income. These clients readily seek tax advice and financial planning services and often have financial and

tax plans which calculate expected cash flows at least five years into the future. Local tax and financial planning practitioners must inform their clients about Maine's tax burden and how this tax burden could impact retirement income. Also, these practitioners inform their clients it is relatively easy for Maine residents to switch residencies to states with little or no state income tax burden (i.e. Maine's neighbor state, New Hampshire, has no income tax and popular retirement state of Florida also has no state income tax).

Our two practitioners concluded that while some clients did indeed leave Maine for tax reasons, a large majority of residents, approaching retirement age and seeking tax and financial planning advice, chose to remain Maine residents. When asked, they estimated that 75 - 80% or more of their clients chose to remain Maine residents. Many of those that moved had a multitude of reasons, not just Maine's tax treatment of retiree income. Some very high net worth individuals do leave the state for tax purposes, but not the majority.

The tax and financial planning practitioners did identify one aspect of Maine's tax code that seemed especially harsh to the retiring Maine resident. A business owner who has built tremendous value of his/her closely held business would face tremendous tax liability on the one-time event of the sale of the business. This value built over years of labor and effort turns into capital gains by a single transaction, and could push a lifelong Mainer to change his/her residence prior to the sales transaction. The sales transaction typically occurs late in life as retirement planning occurs. The practitioners even identified businesses being moved out of state, including the jobs associated with those businesses in order to avoid the one-time tax event. As Donahue's Report concluded, "Such tax-inspired emigration may turn out to be permanent, to the detriment of both the tax émigré and the State of Maine." The Libra Foundation Report from Donahue and the opinions of the tax and financial tax practitioners concluded that Maine should investigate tax changes for these special circumstances.

3. Conclusions and Recommendations

After review of the data from the various sources and extensive discussion, one fact that became evident, as it did to the 1997 Tax and Finance Subcommittee, is that to compete with states like Florida and New Hampshire, which have no income tax, Maine would have to make drastic tax cuts, not modest or incremental changes. For those retirees who are most concerned about tax impact, a modest reduction in Maine tax would not change their decision to avoid state income taxes altogether. Such a drastic change to the Maine tax code is not supported by the various sources of data presented to the Subcommittee.

A second conclusion became obvious to our group - Maine stands out in not offering some form of "special treatment" to retirement income. Donahue's research demonstrates that among the 41 states that have broad based individual income taxes, Maine is one of eight that offers no exemption for any retirement earnings, including military and federal pensions, state and local retirement benefits, and private pensions. As mentioned previously, New Hampshire and Florida have no general individual income tax. Other retirement magnet states, such as Arizona, North

Carolina, South Carolina and Virginia offer some form of exclusion or exemption for pension income.

The “momentum” to offer some form of special treatment to retiree income is also great. Donahue researched tax changes from 1996-1999 and found that 19 states passed some form of income tax reduction that directly or disproportionately benefits retirees or older taxpayers.

Recommendations:

- ❖ **For the one-time tax event resulting from the sale of a proprietorship, partnership or closely held public business in which the taxpayer has played a significant and active role, Maine should offer some form of tax relief.**

This relief could take the form of a tax credit or exemption, and can be structured so that the relief is only available if the business was a Maine business, and if the taxpayer remains a Maine resident for a number of years (i.e. five or ten) after the sale. This relief could spread the tax liability over a number of years, or taxes paid would be refunded to the taxpayer over a number of years as long as he/she remains a Maine resident. The goals of this change would be to retain the businessperson as a Maine resident, and retain the business itself in Maine.

- ❖ **Maine should offer a partial exemption for public pension income, including federal, state and military pensions.**

This exemption should specifically apply to pension income from federal, state and military pensions. The Subcommittee was told that 39% of growth in locations for military retirees occurs in states that offer some form of pension income exemption or exclusion and only 4% growth in those states offering no pension income benefit. Also, as the trend in many other states to pass income tax benefits to retirees escalates, Maine may find it increasingly difficult to retain retirees and attract new retirees.

As this Subcommittee became very aware, and has been noted in tax policy discussions on other issues such as Maine’s business climate, sometimes perception becomes reality. A modest tax change benefiting retirees would indicate that Maine is serious about retaining and attracting retirees. This change could occur in a manner similar to those in other states, exempting a certain amount of public pension income, such as \$6,000.

D. Marketing

National figures indicate that approximately 400,000 people retire and move to a new state each year, taking with them a lifetime's accumulation of assets, along with substantial retirement incomes which they invest in their new communities. Furthermore, research shows that these retirees spend significant portions of their time (as volunteers) and their money (in cultural and philanthropic causes), resulting in substantial benefit to both state and local economies.

Given the number of satisfied retirees who have chosen to migrate to Maine over the last decade, there is little doubt that through initiating a professional and coordinated marketing effort to better inform retirees on what Maine actually has to offer, Maine could increase both the number of retirees that are attracted to the State as well as the number of Maine citizens that choose to remain as Maine residents upon their own retirement.

1. Creating Leadership

Several premier retirement destination states are making serious marketing efforts in an attempt to attract larger shares of the pool of relatively affluent and mobile American seniors.

The size of the nation's retirement market seeking relocation each year is relatively fixed. Therefore, to take advantage of both the economic and social opportunities that such mobile seniors provide, Maine's task should be to increase its relatively small share of the existing market pie (defined as those people who plan to retire in a state other than the one in which they currently live). Increasing Maine's share of this market simply means *taking business away from other primary retirement destination states*.

Despite having no existing statewide retirement marketing effort in Maine, the state has still been able to prove itself attractive to a small "niche" market of retirees who are seeking out such things as a four season climate, a safe and healthy environment, exceptional recreational opportunities, and friendly like-minded neighbors.

Recommendation:

- ❖ **Maine State Government should take a leadership role in developing the infrastructure to support and capitalize on the emerging retirement industry by creating the "Maine Retirement Resource Center".**

The State of Maine must take a leadership role and commit to a plan whose goal would be to both retain and recruit retirees to Maine. The Marketing Subcommittee recommends that this effort be accomplished through a

public/private sector partnership model, adopting a format similar to that used by the Maine International Trade Center. This would entail establishing a vehicle such as a Maine Retirement Resource Center.

The funds to hire a director for such a Center should be appropriated by the State. The remaining funds to operate and staff the Center should come from the private sector.

The director of the Center should be charged with the responsibility to implement an overall marketing plan, to work with a statewide Retirement Industry Association (now in the initial stages of formation), to liaison with the Department of Economic & Community Development, the Office of Tourism, the Maine Chamber of Commerce and Industry and any other state agencies or organizations which further the work of the Center, and to guide the Center towards more private sector funding wherever possible.

The director of the Center should be charged with the responsibility to coordinate with local government, and assist with local planning and other issues related to the potential development of retirement communities.

The Center should be overseen by a Board of Directors chosen by a combination of appointment by the Governor and election by members of a Maine Retirement Industry Business Association (now in the process of being formed by interested Maine businesses). The Board's primary responsibility would be to hire, guide and advise the Director of the Maine Retirement Resource Center.

2. Creating the Right Message for Maine

Maine must compete head-on with other retirement destination states by cogently and factually contrasting ourselves with them, and portraying the many real advantages that Maine currently enjoys over its competitors. Since Maine is not normally thought of as a retirement destination state, this necessarily involves educating potential retirees as to why Maine is in fact a smart choice.

DownEast Magazine has, for two years, published a *Retire in Maine* guide, which has been successful in calling attention to the fact that Maine considers itself a prime retirement destination state. This publication has provided the first real opportunity for an informational and advertising vehicle for the retirement industry as a whole. A retirement marketing campaign sponsored by the state should be initiated to build upon this success and link it to Maine's overall tourism campaign, since research shows that tourism is a primary prerequisite in retirement relocation decisions made by individuals.

Recommendations:

- ❖ **Maine must launch a well thought out and well funded marketing campaign closely linked to Maine's tourism promotion.**

The Marketing Subcommittee recommends that the State of Maine recognize the importance of creating a competitive and professional marketing campaign to support the increasing efforts being made by the private sector to promote retirement at numerous locations throughout Maine.

The State of Maine should establish a retirement marketing fund whose primary goal would be to create a nationwide recognition that Maine is considered a prime retirement destination state, and to measurably increase the share of the retiree market attracted to Maine.

Maine should fund the first two years for such a retirement marketing program at the rate of \$100,000 per year, and after the initial two year period require a 1:1 match from the private sector for making the ongoing State contribution to such a fund. The Board of Directors of the proposed Maine Retirement Resource Center would be responsible for all decisions regarding creating and maintaining a competitive statewide marketing program aimed at attracting and retaining retirees in Maine.

Where to Retire magazine has compiled a list of fifteen key factors that retirees list as the criteria on which they base their retirement relocation decisions (see **Appendix I.**). Maine has the capability of ranking high on nine of the fifteen factors. Maine's overall quality of life, for many, will outrank some of the factors which score lower rankings in Maine. A successful marketing campaign for Maine will need to stress Maine's overall quality of life, and put out a strong and clear message on the factors where Maine ranks highly. It should also address those factors where Maine is less competitive, by seeking ways to improve Maine's rankings on these measures wherever possible.

3. Moving Towards Implementation in a Timely Manner

Recognizing that there may be political hurdles that the Governor may face in gaining legislative support for initiating new State funding for the ideas put forth by this Subcommittee of the Governor's Retirement Industry Advisory Council,

we advise moving forward on whichever elements are most feasible in the shortest period of time. Since no program currently exists, such an implementation could be seen as the first phase of an initiative that can be allowed to grow based on its demonstrated successes to the communities and citizens of Maine.

APPENDIX A

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APPENDIX B

Demographic Profile of Maine's Older Residents

by
Richard A. Sherwood

There were an estimated 1,244,250 residents of Maine in 1998. Of these, 29% or 360,659 were age fifty and older. The latter were almost evenly divided between those who were age fifty to sixty-four (15% of all residents) and those who were age sixty-five and older (14% of all residents).

1990 to 1998 Growth in the Number of Older Residents

Although the total number of residents increased only 1% between 1990 and 1998; the number of older residents, increased much faster (10%). The number age fifty to sixty-four increased 13% while the number age sixty-five and older increased 7%.

The Geographic Distribution of Maine's Older Residents

Little information has been collected about Maine's older residents since the 1990 U.S. decennial census. Hence, we are limited to that source for a comprehensive picture of the characteristics of these residents and their living conditions.

Much of what we want to know from the 1990 census comes from seven regional samples selected from the original census returns. Because of sampling errors, the data presented here may differ slightly from the complete count data published by the Census Bureau. The seven regions are:

- A: Aroostook and Washington Counties
- B: Bangor Metropolitan Area, Balance of Penobscot County, Hancock and Piscataquis Counties
- C: Androscoggin County Excluding Lewiston Auburn Metropolitan Area, Kennebec and Somerset Counties
- D: Knox, Lincoln and Sagadahoc Counties, Waldo County Excluding Bangor Metropolitan Area
- E: Lewiston-Auburn Metropolitan Area, Franklin and Oxford Counties
- F: Cumberland County
- G: York County

The number of older residents in each region in 1990 ranged from 33,300 in region A (Aroostook and Washington Counties) to 60,600 in region F (Cumberland County).

Numbers of Residents of Specified Age in 1990

Age	Region							Maine
	A	B	C	D	E	F	G	
Under 50	86,866	159,536	133,609	92,514	123,390	183,600	123,205	902,720
50-64	16,926	28,939	24,779	17,963	22,906	29,557	20,952	162,022
65 & Older	16,407	27,169	23,333	18,750	24,380	31,016	21,107	162,162
Totals	120,199	215,644	181,721	129,227	170,676	244,173	165,264	1,226,904

The per cent of residents in a region who were age 50 and older ranged from 24.80% in region F (Cumberland county) to 28.41% in region D (the mid-coast).

Per Cent of Residents of Specified Age in 1990

[illegible]

The Sex Composition of Maine's Older Population

Women, on average, live longer than men. Hence, there were more women than men among Maine's older residents in 1990. The difference was small among residents age 50 to 64 -- 25.65% of Maine's older residents were females age 50 to 64 vs. 24.32% who were males in that age range. But, the difference was greater for residents age 65 and older -- 29.92% of older residents were females age 65 or older vs. only 20.10% who were males age 65 or older. The per cent of older residents who were female varied from a low of 53.96% in region A (Aroostook and Washington Counties) to a high of 56.90% in region F (Cumberland County).

Per Cent of Older Residents in 1990 Who Were Female or Male

[illegible]

The Urban and Rural Distribution of Maine's Older Residents

A slight majority of older residents (52.25%) lived in rural areas in 1990. However, the converse was true for those age 65 and older -- 26.27% of older residents were persons age 65 and older living in urban areas vs. 23.75% who were 65 and older and living in rural areas. Regional differences were marked and ranged from 29.05% of the older residents of region D (the mid-coast) living in urban places to 62.53% of the older residents of region F (Cumberland County) living in urban places. Urban is here defined as any area with a minimum residential density of one hundred persons per square mile and a minimum total population of 2,500 persons.

Per Cent of Older Residents in 1990 Who Lived in Urban and Rural Communities

[illegible]

The Housing of Maine's Older Residents

More than 70% of Maine's older residents lived in single family homes in 1990 and just under 16% lived in apartments. Most of those living in apartments were age 65 and older while most living in single family homes were under age 65. The regions varied substantially in the proportions living in these types of housing. Fewer than 10% of the older residents of region D (the mid-coast) lived in apartments but, over 22% of the residents of region E (metropolitan Lewiston-Auburn and Franklin and Oxford Counties) did so. Concomitantly, more than 77% of the older residents of region D lived in single family homes while only 64% of the residents of region E did so.

Per Cent of Older Residents in 1990 Who Lived in Different Types of Housing

[illegible]

Length of Time Maine's Older Residents Had Lived in Their Homes

Per Cent of Older Residents in 1990 Who Had Lived in Their Homes Varying Lengths of Time

Maine's Older Residents Living Alone

Per Cent of Older Residents in 1990 Who Lived Alone or with Others

[illegible]

Older Maine Residents with Limiting Health Conditions

Slightly more than one quarter of Maine's older residents had a health condition in 1990 that either prevented or limited their working, limited their mobility or made it difficult to take care of personal needs. The greater part of these were age 65 or older.

Per Cent of Older Residents in 1990 with a Health Condition Limiting Activities									
		Region							Maine
	Age	A	B	C	D	E	F	G	
No Limitation	50-64	41.74%	44.20%	42.50%	41.29%	39.50%	42.93%	43.04%	42.29%
	65 & Older	30.25%	29.74%	30.52%	32.96%	31.58%	34.54%	34.72%	32.08%
	Subtotals	71.99%	73.94%	73.02%	74.25%	71.08%	77.47%	77.75%	74.37%
With Limitation	50-64	9.04%	7.38%	9.00%	7.64%	8.94%	5.87%	6.78%	7.69%
	65 & Older	18.97%	18.68%	17.98%	18.11%	19.98%	16.66%	15.47%	17.94%
	Subtotals	28.01%	26.06%	26.98%	25.75%	28.92%	22.53%	22.25%	25.63%
Grand Totals		100.00%	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%

Older Maine Residents Working Outside the Home

A minority (43.78%) of Maine's older residents worked outside the home in 1989. Four fifths of these workers were under age 65. Only one fifth were age 65 or older.

Per Cent of Older Residents Who Worked Outside the Home in 1989									
		Region							Maine
	Age	A	B	C	D	E	F	G	
Worked	50-64	32.36%	34.00%	35.12%	33.08%	34.35%	36.19%	35.79%	34.59%
	65 & Older	8.16%	8.33%	7.94%	10.97%	9.54%	10.37%	8.94%	9.19%
	Subtotals	40.51%	42.33%	43.06%	44.05%	43.88%	46.56%	44.74%	43.78%
Did Not Work	50-64	18.42%	17.58%	16.38%	15.85%	14.10%	12.61%	14.02%	15.39%
	65 & Older	41.06%	40.09%	40.56%	40.10%	42.02%	40.83%	41.24%	40.83%
	Subtotals	59.49%	57.67%	56.94%	55.95%	56.12%	53.44%	55.26%	56.22%
Grand Totals		100.00%	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%

Incomes of Maine's Older Residents

The median 1989 household income of Maine's older residents was equivalent to a 1999 purchasing power of \$31,130. The median income of those between the ages of 50 and 64 was equivalent to \$42,601 while that of residents age 65 and older was equivalent to less than half that amount -- \$20,967.

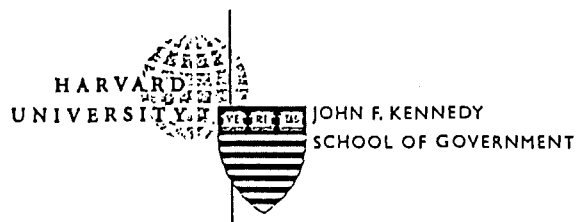
Median 1989 Household Incomes of Older Residents Measured in 1999 Dollars								
		Region						
	Age	A	B	C	D	E	F	G
	50-64	\$32,901	\$42,129	\$40,028	\$38,932	\$40,924	\$54,662	\$46,826
	65 & Older	\$15,707	\$20,100	\$18,977	\$24,157	\$19,704	\$24,735	\$25,730
	All Older Residents	\$23,145	\$30,561	\$27,293	\$31,197	\$29,433	\$38,330	\$34,991
								\$31,130

There are three reasons why the household incomes of persons age 65 and older are so much lower than those of the younger cohort. First, the older cohort has many fewer workers in the labor force (or many more retirees). Second, the savings and pensions which provide the incomes of these retirees were accumulated during an earlier era when the average income and savings of workers were not as large as they have been in recent decades. Finally, many more of the older cohort's households are occupied by widows or widowers living alone. These

households have access to a single income whereas many married couple households have two incomes.

The median household incomes vary across the regions from \$23,145 in region A (Aroostook and Washington Counties) to \$38,330 in region F (Cumberland County).

APPENDIX C



CENTER FOR BUSINESS AND GOVERNMENT

Taxes and Retirement in the State of Maine

prepared for the

Libra Foundation

by

John D. Donahue
&
Herman B. Leonard

October 20, 1999

Taxes and Retirement in the State of Maine

October 20, 1999

Prepared for the Libra Foundation

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John D. Donahue and

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Introduction

At the request of Governor Angus King, the State Planning Office published *A Golden Opportunity: How Maine Can Enhance The Retirement Industry* early in 1997. That report discussed the potential benefits to Maine of attracting and retaining a larger number of retirees, and inventoried Maine's many points of appeal to retirees and people contemplating retirement. The task force preparing the report observed that Maine's tax system, and particularly its highly progressive income tax, may tarnish the state's attractiveness. While endorsing some modest adjustments in tax provisions, *A Golden Opportunity* hesitated to prescribe large-scale income tax cuts as a central tactic for retaining Mainers approaching retirement and attracting retired newcomers. This was in part because the budgetary situation did not then permit significant tax reductions of any sort, and in part because the task force remained uncertain of the merits of such an approach.

Governor King has commissioned a new report on the broad issue of retirement in Maine. In support of that effort, the Libra Foundation has enlisted us to examine the specific dimension of taxes and retirement. While the Foundation helped to arrange access to Maine officials and citizens concerned with the issue, it has otherwise avoided any involvement in this project. Foundation President Owen Wells has stressed that our mandate is to produce a strictly independent inquiry, in hopes of better equipping Mainers for their own reflection and debates about the choices before them.

We first sketch Maine's fiscal profile in some detail, and compare it to the average for all states and that of two reference groups—the rest of New England, and a set of states considered particularly attractive to retirees. Next we examine the structure of state taxation in Maine, in the

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context of national trends in state tax policy. We then lay out the logic of using tax policy as a tool for attracting or retaining retirees. Finally, we tap several types of evidence to calibrate the potential for increasing Maine's population of retirees (especially more affluent retirees) through changes in taxation, and offer some concluding observations.

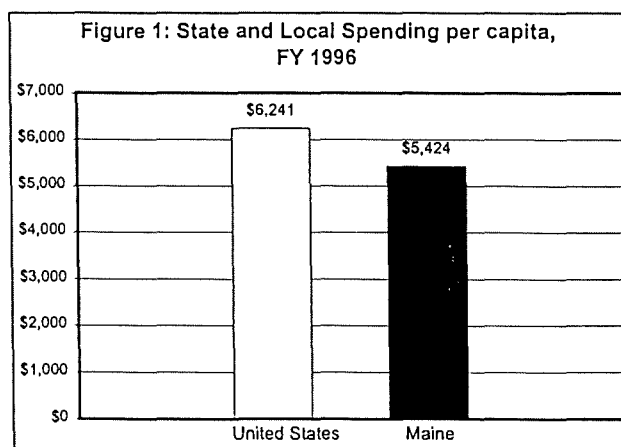
Maine's Fiscal Profile in Comparative Perspective¹

Does Maine pursue high levels of public spending, fueled by taxes that are out of line with the burdens other states impose on their citizens? Some attention to this background question is an essential prerequisite to the subsequent focus on taxation's likely impact on retirement choices. The answer to this apparently simple question—is Maine a high-tax, high-spending state?—is more complex than one might expect, and depends on the precise perspective one takes. This section engages the question from several different angles. All of them, though, are *comparative*. Absolute levels of taxing and spending are not very illuminating. If the question is how current and potential retirees perceive Maine, and how that perception can affect their behavior, what matters is Maine's fiscal picture relative to at least three benchmarks:

- the average for *all* states;
- other New England states;
- and states that compete with Maine as magnets for retirees.

It is also important to present an *integrated* fiscal picture—including both state and local finances—so that real differences (or real similarities) aren't obscured by variations across states in how the boundary between state and local responsibilities happens to be drawn. For example, in Maine (as in many states) state-level taxation exceeds local taxation by a substantial margin; in New Hampshire, state tax revenues are less than half as large as local tax revenues. Failing to consider both levels of taxation would lead to a grossly distorted picture of the relative burden of government.

The Census Bureau's Governments Division—acting in concert with a very large number of state and local financial organizations—assembles an admirably complete and consistent compilation of financial data for state and local government. Standardized information is available on each category, and some quite detailed sub-categories, of state and local spending, taxes, and other revenues (including transfers from the Federal



¹ This section is based on data from U.S. Department of Commerce, Bureau of the Census, Governments Division "Finance Estimates for State and Local Governments, 1996." The source files are 96stlss1.txt and 96stlss2.txt, accessed in July and August 1999 at <http://www.census.gov/govs/www/estimate.html>, processed by John D. Donahue and formatted in chart form by John D. Donahue and Scott Barkan.

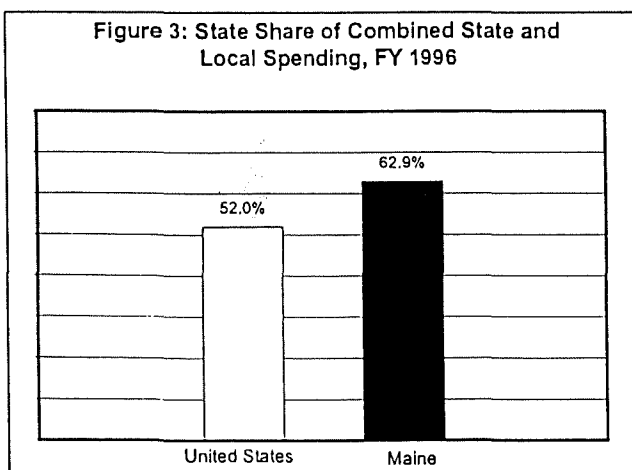
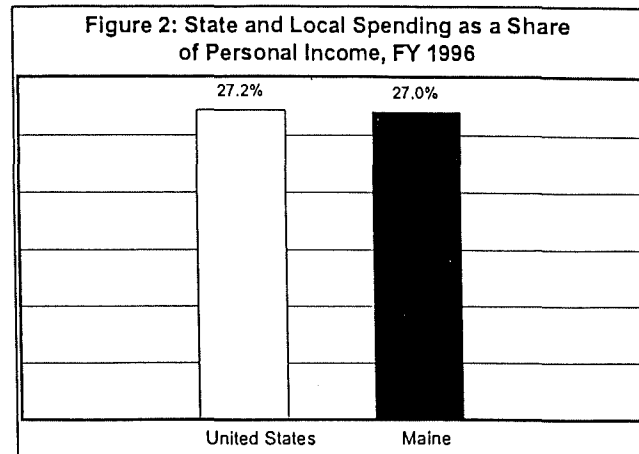
government.) This level of detail and standardization comes at the price of timeliness, however. The most up-to-date *state* fiscal data are for FY 1998, while the most recent data for state and local government *combined* are for FY 1996. A state's basic fiscal profile rarely undergoes radical short-run changes—Maine's has not—but the vintage of the data should be kept in mind when reviewing this section.

Maine Relative to the All-State Average

Maine's public sector—state and local government combined—spent a total of about \$5,424 per person in fiscal 1996. This was over \$800 *less* in *per-capita* public spending than the national average of \$6,241. (See Figure 1.) Maine's spending for primary and secondary education—the largest claim on state and local budgets—was almost precisely the national average (\$1,048 for Maine; \$1,051 for the country as a whole) while its higher-education spending was a little below average (\$315, compared with \$380.) It spent considerably more for “welfare” broadly defined (\$1,025 versus a U.S. average of \$731), much of this reflecting vendor payments for Medicaid. Unsurprisingly for a large and thinly populated state, Maine spent more than the national average for highways (\$392 versus \$298.) But it undershot the national average in enough areas (including utilities, police and fire, and corrections), and undershot it by a large enough margin, to rack up total *per-capita* spending that was just 87 percent of the average for all states.

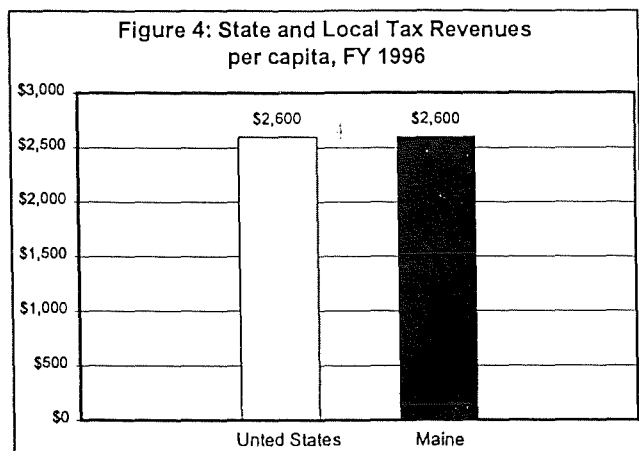
So by this broadest measure—overall public spending—Maine looks quite a bit thrifter than the norm. But Maine is also quite a bit less affluent than the norm. A more meaningful measure of government's ambitions and cost may be public spending relative to personal income. By this metric, Maine hits the national benchmark almost precisely: In the U.S. as a

whole, state and local spending came to 27.17 percent of personal income in 1996. In Maine, it came to 27.02 percent. (See Figure 2.) While Maine is almost exactly at the national average for public spending relative to private affluence, it departs from the norm in the division of labor between state and local government. While the separate states display an enormous range of variation in how this boundary is drawn, on average state government spends a little over half of the total. In Maine, the state share is considerably higher—closer to two-thirds than to one-half. (See Figure 3.)



So the picture thus far is of a state whose public-sector spending—scaled to its citizens’ means—is very close to the national norm. But that public-sector spending is significantly tilted

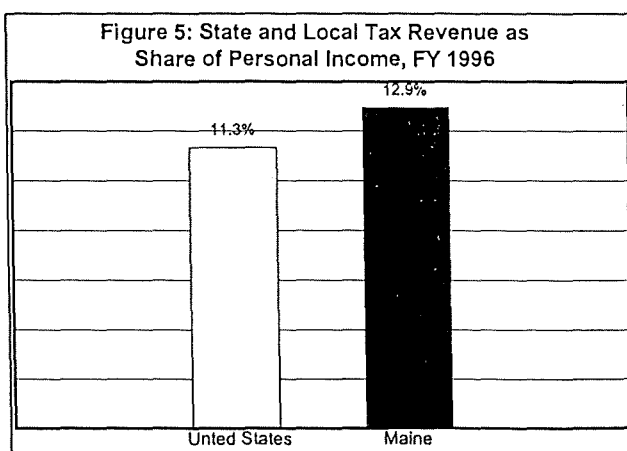
to *state*, rather than *local*, spending—again, relative to the national norm. If every unit of government spent only the money it raised itself, if all spending were financed by taxes, and if all public budgets were precisely balanced every year, we would have already said a lot about Maine’s fiscal profile. But state and local finance is considerably more complicated: Cities and states spend not only their own money, but also money they get from Washington, and from each other. Nor is taxation the only way cities and states raise their own money.



Maine’s combined state and local tax burden was the same (to the nearest dollar) as the national average: \$2,600 *per capita*. (See Figure 4.) Since Mainers earn somewhat less than the national average, however, this means that their *per capita* tax burden is on the high side. Total state and local tax revenues were 12.9 percent of personal income in Maine, compared with 11.3 percent for the U.S. as a whole.² (See Figure 5.) And the state share of state-local taxation was a little lower than the national average—about 59 percent of the total, compared to about 61 percent. (See Figure 6.)

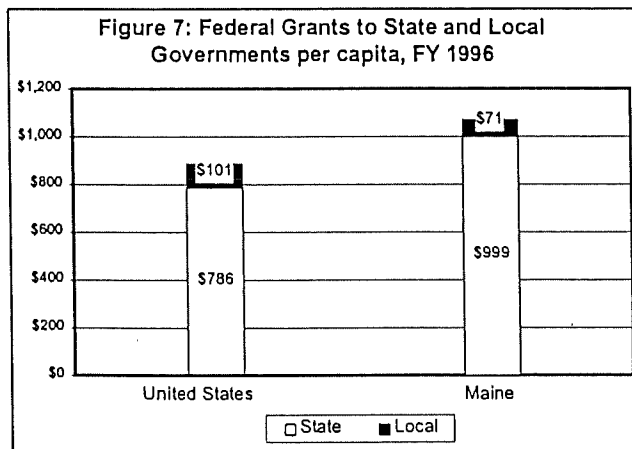
This seems peculiar, at first glance. How can it be that Maine is *below* the national average in spending, but *at* the national average in taxing? (This is in *per capita* dollar terms; the story can be stated differently, but no less puzzlingly, in terms of the percentage of personal income, where Maine is *at* the national average for spending but *above* the national average for tax revenue.) And how is it that in Maine the state share of the state-local total is unusually *high* for spending, but a notch *below* the norm for tax revenue?

Much of the explanation lies in intergovernmental grants—transfers of resources *between* governments. A great deal of what is conventionally termed “Federal spending” is allocated to cities and



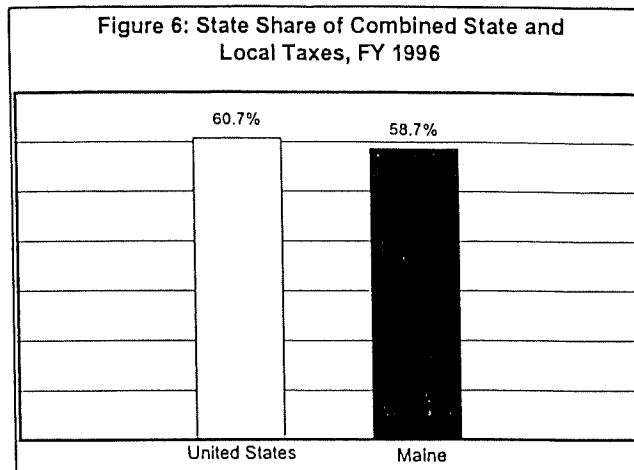
² This does not mean that all Mainers, or even the average Mainer, paid 12.9 percent of income in state and local taxes. Some taxes are paid by out-of-staters; some taxes are levied on business income, rather than personal income. This is simply a way of calibrating tax burdens relative to a state’s general level of affluence. The National Tax Foundation has published figures for 1999 that show a higher *per capita* state and local tax burden for Maine—13.84 percent, ranking the state third in the nation. Maine’s heavy reliance on progressive taxes *does* mean that its relative tax burden has probably risen faster than average during the late-1990s boom, but the Tax Foundation figure needs to be taken as tentative. For purposes here, we rely on the dated but more definitive Census Bureau figures.

states, rather than spent by Federal agencies, and roughly a seventh of all state and local endeavors are funded by transfers from Washington (or, more precisely, funded by citizens with Washington as the conduit.) Cities and states rely on Federal grants to help pay for a vast range of activities, including providing health care to low-income people, building and maintaining highways, supplementing school budgets, training workers, and supporting needy families. Maine is no exception. But its pattern of receipts from Washington departs somewhat from the average. Averaging all states together, state governments collected \$786 *per capita* in Federal grants in 1996, and local governments collected \$101 *per capita*. But Maine's state government received 27 percent *more* than the *per capita* average for all states, while Maine's local governments received 30 percent *less* than the average. (See Figure 7.) Maine seems to be somewhat more likely to lodge at the state level those governmental operations that are eligible for federal funding.



On average, state-to-local grants were \$918 *per capita* in Fiscal 1996, exceeding the scale of Washington-to-state grants for the nation as a whole. But in Maine, state transfers to local government were much lower, at \$590 *per capita*. (See Figure 8.) Not only does state government in Maine control some Federally-funded undertakings that in other states are run by local governments. The state government also tends to carry out state-funded functions itself, rather than sending the responsibility (and the money) to cities, towns, and counties.

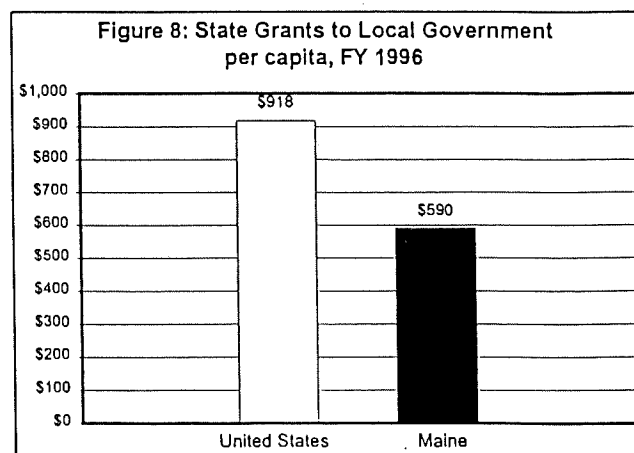
The apparent mystery of a state government that accounts for a large share



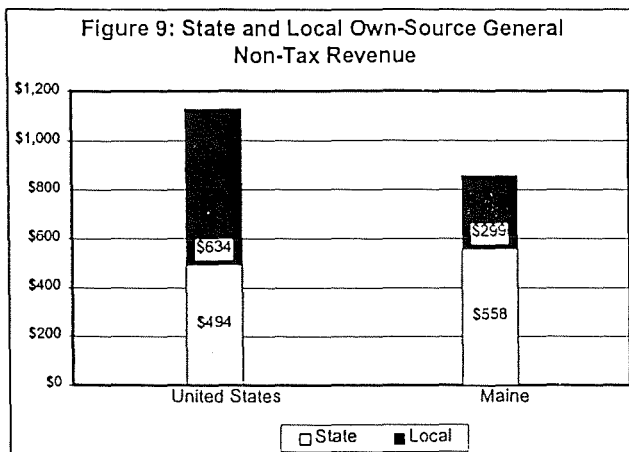
than the *per capita* average for all states, while Maine's local governments received 30 percent *less* than the average. (See Figure 7.) Maine seems to be somewhat more likely to lodge at the state level those governmental operations that are eligible for federal funding.

The bias toward the state in funds from Washington helps to explain why state government carries out a large share of the spending, but doesn't do a large share of the taxing, within Maine's public sector.

Another part of the explanation can be found in transfers from *state* to *local* government.



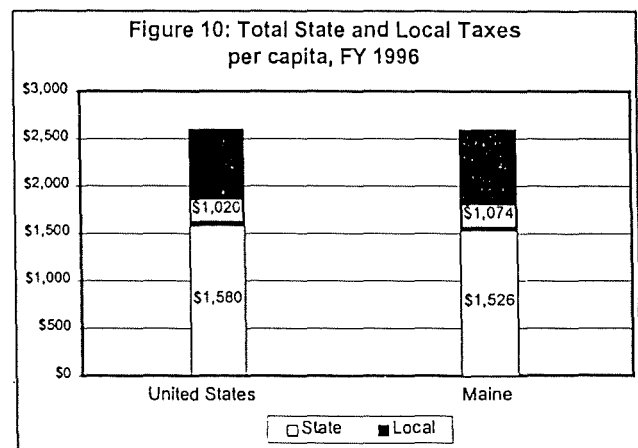
of the spending but *not* a large share of the taxing is much clarified once intergovernmental grants are taken into account. Another part of the explanation concerns revenues *other* than taxes. This is a broad, diverse slice of America's overall state and local fiscal picture. Non-tax



revenue can include everything from state lottery proceeds and interest on bank deposits to fees collected by public colleges or hospitals and fines levied on overdue books at a local library. The distinction between a tax and other transactions that increase government assets is often rather murky. The interesting point, for present purposes, is that Maine's public sector collected only three-fourths as much non-tax general revenue, on a *per capita* basis, as the national average. But while Maine's state government collected somewhat *more* non-tax revenue than the mean, its local governments collected less than half as much as the national average.

(See Figure 9.) What explains the relative shortfall in local revenues other than taxes? No single factor accounts for it, but several items stand out. Local governments in Maine collect little revenue from public hospitals (\$35 *per capita* in 1996, *versus* a national average of \$132), earn relatively little interest income (\$38 *versus* \$109), and collect less than the average from school lunches, fees and other charges related to education. Scant non-tax revenues reinforce the basic picture of a relatively modest local-government sector. While Maine's state government spent very close to the national average on wages and salaries for public workers (a wage bill of \$490 *per capita* in 1996) local governments spent \$328 *less* than the national average of \$1,199. In short, Mainers tend to do without some common local public services, or to rely on state government or the private sector for an unusually large share of services that elsewhere tend to show up in local government spending.

The basic fiscal story so far is that Maine's public sector spends at about the national average (relative to personal income) but spends *more* at the state level and *less* at the local level. This is largely because state government collects more than average from Washington, and local governments collect less than average, while the state spends relatively little to underwrite local governments. And state government collects somewhat more non-tax general revenue than average, while local government collects a good deal less. We can now narrow the focus to *taxes*—the central subject of this report. As we observed earlier, Maine is very close to the national average in *per capita* state and local taxation, and somewhat above the average in state and local taxes relative to personal income (12.9 percent versus 11.3



percent.) It is not far from the norm in the shares of total taxes levied by state *versus* local government. The state collects a little less than average (\$1,526 *versus* \$1,580), while local governments—somewhat more reliant on their own levies than local governments elsewhere—collect a little more (\$1,074 *versus* \$1,020.) (See Figure 10.)

Consider next the *composition* of Maine's state and local taxes. Figures 11 and 12 allow a comparison of the major categories of state and local taxation in Maine, and the average for the U.S. as a whole. One noteworthy observation is that the 1996 *per capita* tax burden in Maine, rounded off to the nearest whole dollar, was precisely the national average--\$2,600. Another is that Maine's portfolio of state and local taxes departs quite substantially from the typical pattern.³ Property taxes account for a much larger share of the total—nearly 42 percent in Maine, compared with just over 30 percent on average. Sales taxes are a smaller fraction of Maine's tax revenue (29 percent *versus* 36 percent.)⁴ Corporate income taxes account for 4.6 percent of state and local taxes nationwide, but just 2.2 percent in Maine. Interestingly, despite Maine's high income tax rates, individual income taxes contribute only a slightly larger share of state and local tax revenue in Maine (22 percent) than the national average (21.3 percent.)

Figure 11: Per Capita State and Local Taxes, U.S. Average FY 1996 (total = \$2,600.42)

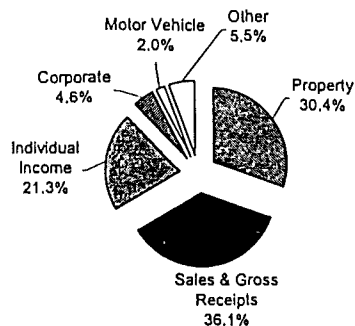
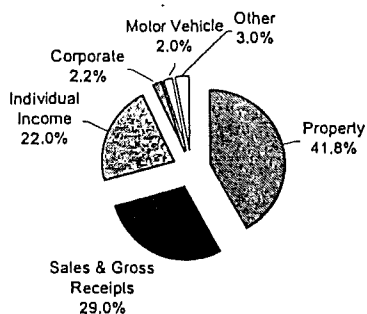


Figure 12: Per Capita State and Local Taxes, Maine FY 1996 (total = \$2,600)



Maine has a reputation, both within and beyond the state, for progressive taxation. (A tax system or an individual tax is considered *progressive* if it claims a larger share of high incomes than of low incomes, *regressive* if it claims a larger share of low incomes, and *proportional* if it takes the same fraction of income across the spectrum.) The Census Bureau data are broadly consistent with this view, but with some exceptions and nuances worth noticing. The burden of sales taxes tends to fall with disproportionate weight on less affluent people, because better-off people devote more of their incomes to saving, and to spending on

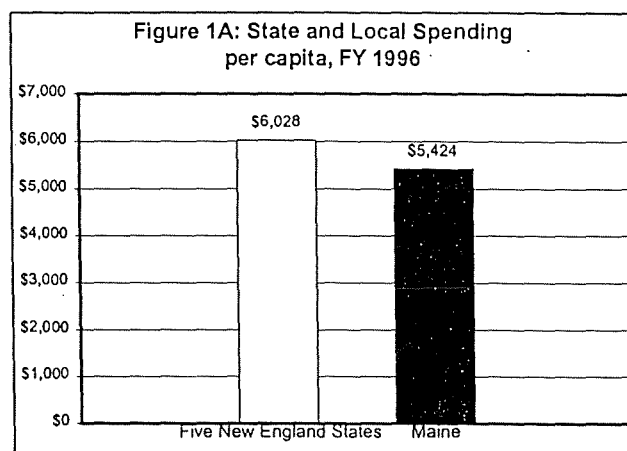
services (as opposed to goods.) So Maine's sparing use of sales taxation fits with the reputation for progressivity. Maine's heavy reliance on property taxation—almost all of which is local, rather than state—is generally, but not completely, consistent with this progressive pattern.

³ No state, of course, is precisely at the national average, and each maintains its own distinctive balance among categories of taxes.

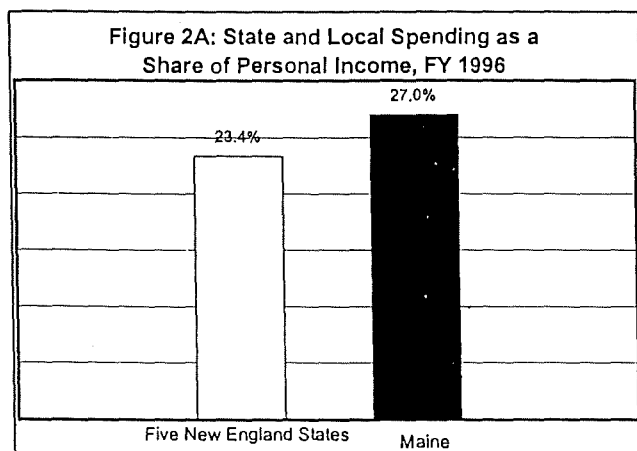
⁴ The recent legislation cutting the sales tax rate in Maine is likely to reduce this further.

Property taxes do tend to be proportional to income; richer people are likely to own more property, and hence pay more property taxes. But less affluent people can pay a higher *share* of their incomes in property taxes, if they live in a property-poor town with high tax rates, or if their property holdings are disproportionately high relative to their incomes (as is often the case with older taxpayers.) Business assets as well as personal property are subject to property taxes, and while some business owners are well-off, others are not. While the homestead exemption and other measures buttress the progressive tendencies of Maine's property taxation, the distribution of this tax's burden is more complex than it may at first appear to be. It is worth underscoring that the relative importance of local property taxes in Maine tends to limit the leverage that can be exercised by changes in *state* tax law.

Maine's lower-than-average reliance on corporate income taxes, and its close-to-average reliance on individual income taxes, may seem to run counter to this reputation for progressivity. But corporate taxes are a low (and falling) share of state taxes nationwide, making this a relatively minor part of the picture in any event. Moreover, there is considerable uncertainty about how their burden is ultimately shared among customers, shareholders, and other groups. It *is* somewhat surprising to see that individual income taxes are so modest a share of the total tax bill. Yet it is important to remember that the *per capita* average tax bill can obscure enormous variation in a tax system's impact across different categories of taxpayers. As will be discussed shortly, the structure of Maine's tax system can allow income taxes to swamp other categories of taxation for some citizens.

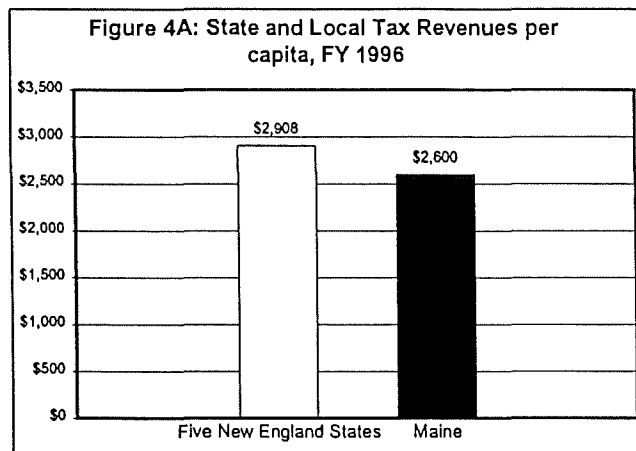
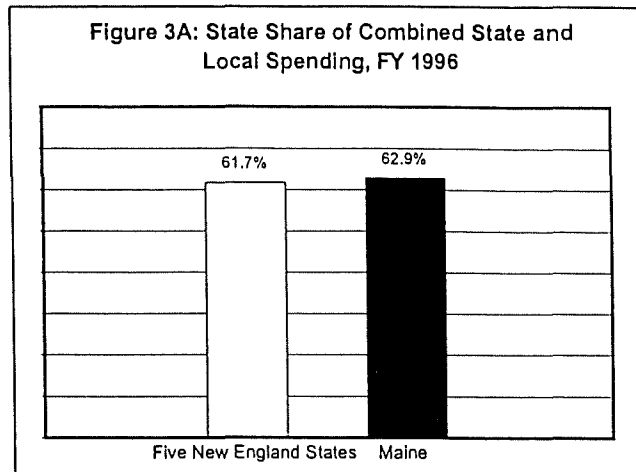


Maine Relative to the Rest of New England

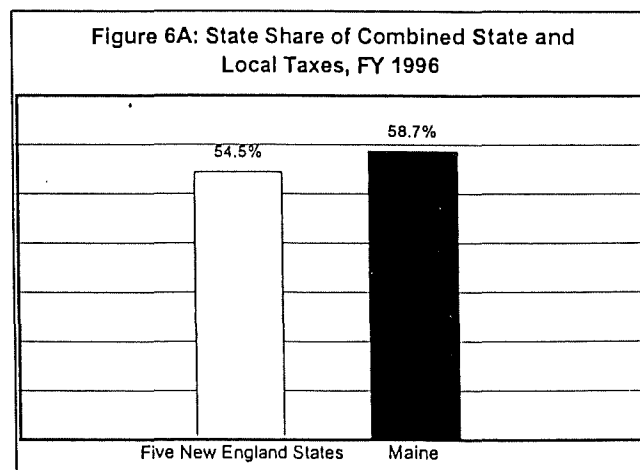
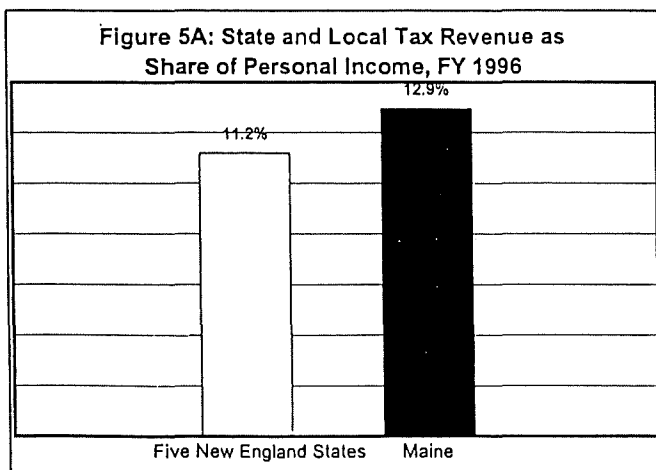


This section briefly compares Maine's fiscal profile with the average for the other five New England states of Connecticut, Massachusetts, New Hampshire, Rhode Island, and Vermont. This five-state average conceals much variation among the New England states, from Massachusetts (with its relatively high taxes and spending) to New Hampshire (a famously tax-averse state.) Yet it turns out that there is a characteristic New England pattern across many parts of the fiscal picture. Within the region New Hampshire, rather than Maine, tends to depart from the pattern.

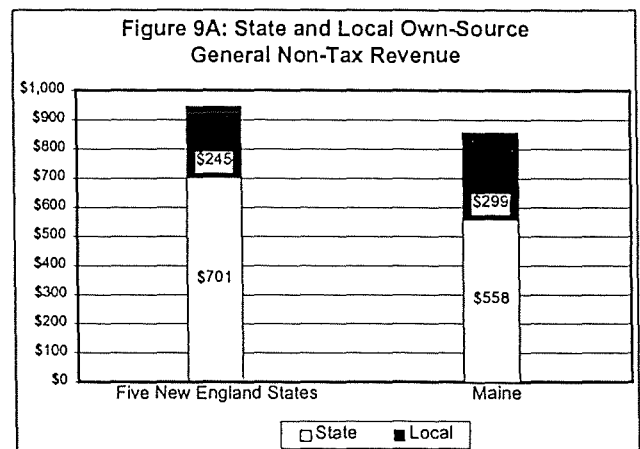
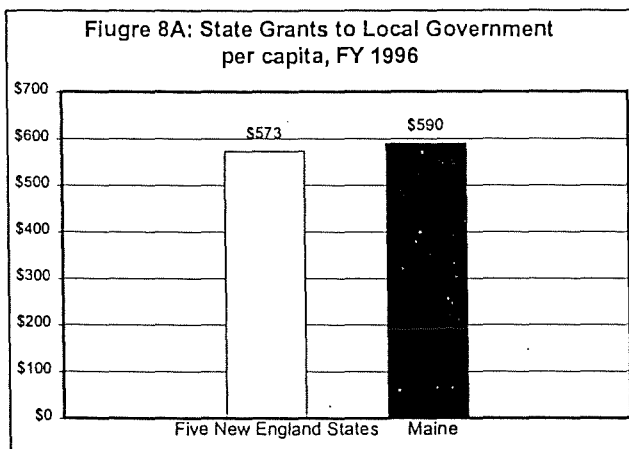
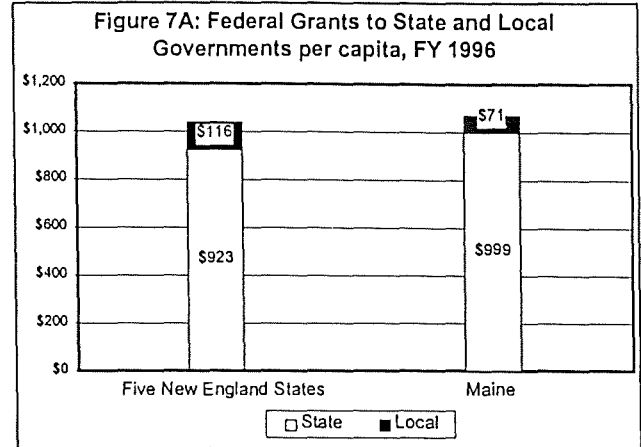
State and local spending *per capita* is actually *lower*, for New England on average, than for the country as a whole. As Figure 1 above shows, average FY 1996 state and local spending was \$6,241 *per capita*. It seems surprising that New England would outpace the rest of the country on public-sector thrift, but much of this is due to the relative rarity of government-owned hospitals and utilities in New England. On average, cities and states spent \$616 *per capita* on public hospitals and utilities, while New England spent \$337. In dollar terms, Maine's spending per person is lower than the other New England states, but relative to personal income Maine's public spending outpaces the rest of New England. Maine fits the New England pattern (and departs from the national average) in state government's high share of state and local spending.



On the narrower issue of state and local taxation, Maine imposes a smaller burden than the rest of New England on a *per capita* basis, and a higher burden relative to personal income. Recall from Figure 6, discussed earlier, that *state* taxation in Maine accounts for a lower-than-average share of the state-local total (58.7 *versus* 60.7.) Figure 6A shows that the other New England states display an even *lower* share of state taxation in the total.

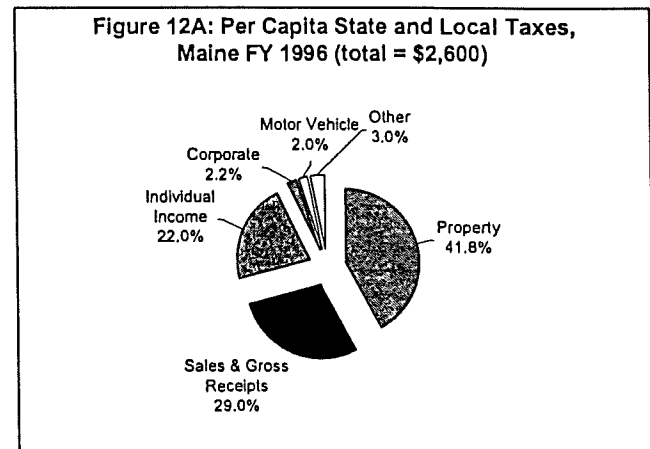
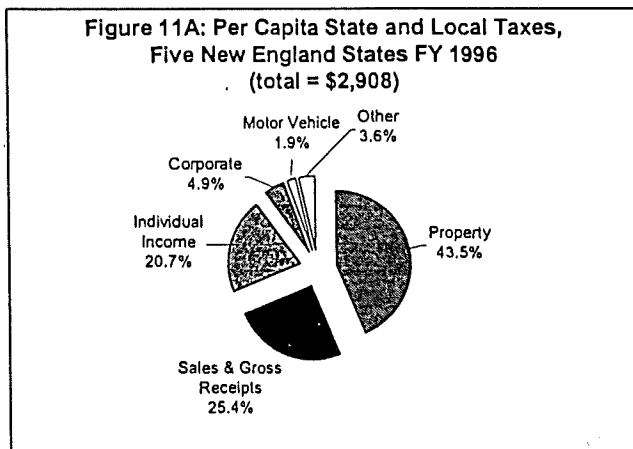
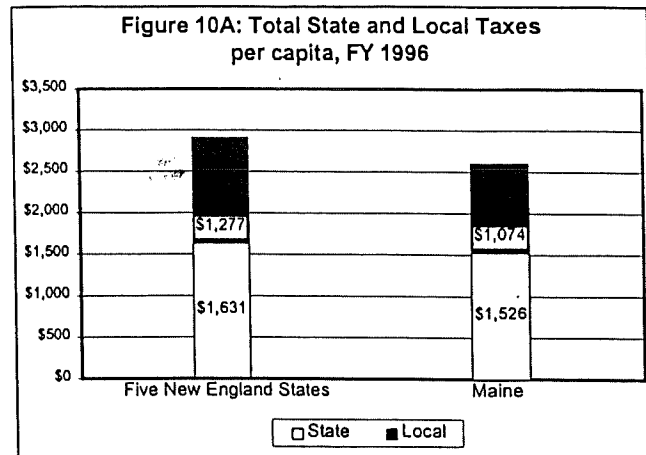


While local governments in New England tend to collect higher levels of Federal grants than the national average, in Maine local governments collect less. But Maine slightly exceeds even the high New England average in Federal grants to *state* government. Maine fits the New England pattern in its lower-than-average levels of state grants to local government. On the issue of own-source general revenues other than taxes, Maine is lower than the other New England states, which are themselves well below the national average.⁵ But Maine fits the New England pattern (and departs from the national pattern) in its unusually low *local* share of non-tax revenues.



⁵ The relative rarity of public hospitals and utilities in New England explains some of this; hospital charges and utility bills are important categories of non-tax revenues.

Maine looks like the rest of New England (and unlike the national average) in the relative importance of different categories of taxes. The New England states tend to rely very heavily on property taxes (which are mostly levied by local government), and make modest use of sales taxation. New England states as a group depend on corporate income taxes to about the same degree as the national average, or about twice as much as does Maine. And the New England average for individual income taxes as a share of all state and local taxation—pulled down by New Hampshire—is somewhat *lower* than the national average (20.7 percent versus 21.3 percent) and significantly lower than Maine’s 22 percent.

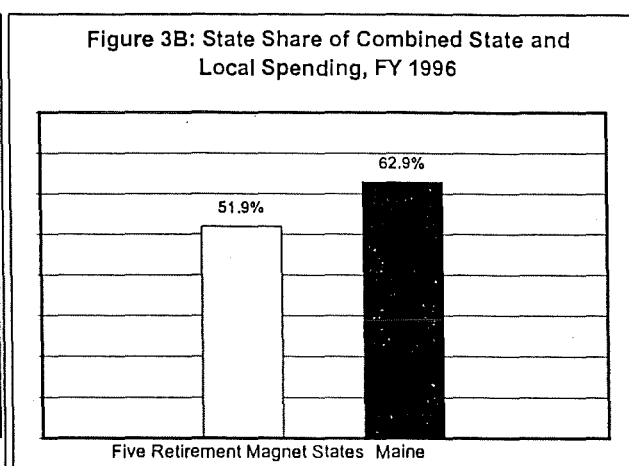
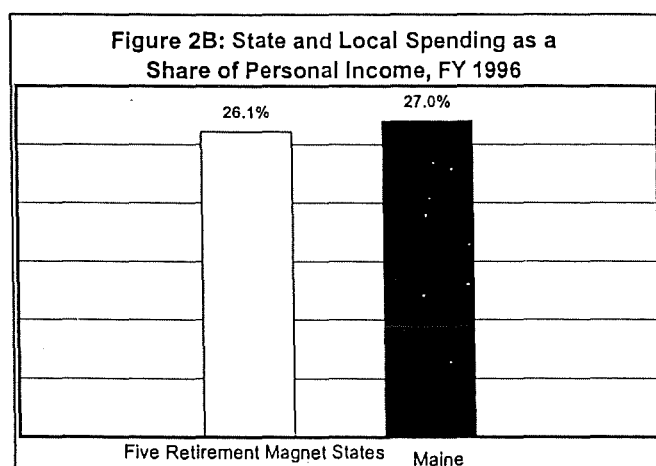
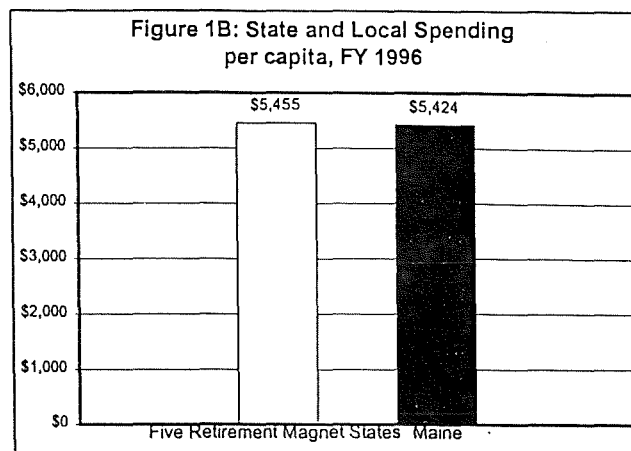


Maine Relative to Other “Retirement Magnets”

Shaped by a common history and culture, on most fiscal dimensions Maine resembles the rest of New England in its taxing and spending patterns. The previous section’s comparisons are useful for understanding Maine’s current fiscal profile. But another set of comparisons may be more germane to discussions of how those patterns would need to change—the direction of the change, and the distance—if Maine chose to focus on taxation as a tactic in its competition for retirees. This section compares Maine with a group of states outside New England that are considered “retirement magnets”—states that draw a disproportionate share of relocating retirees, or hold reputations for being especially hospitable as retirement locales. The

comparison set of “retirement magnets” outside New England includes Arizona, Florida, North Carolina, South Carolina, and Virginia.⁶

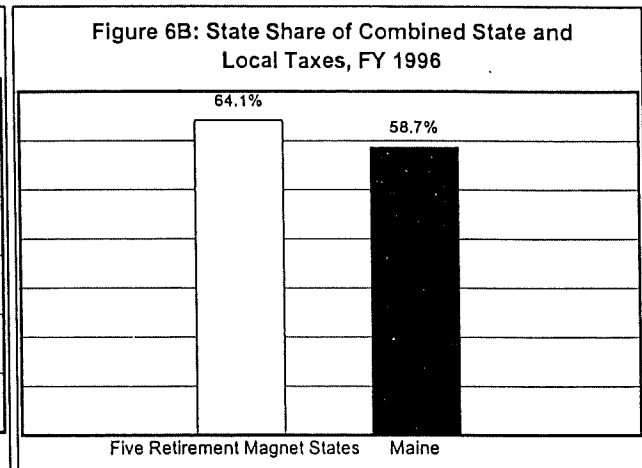
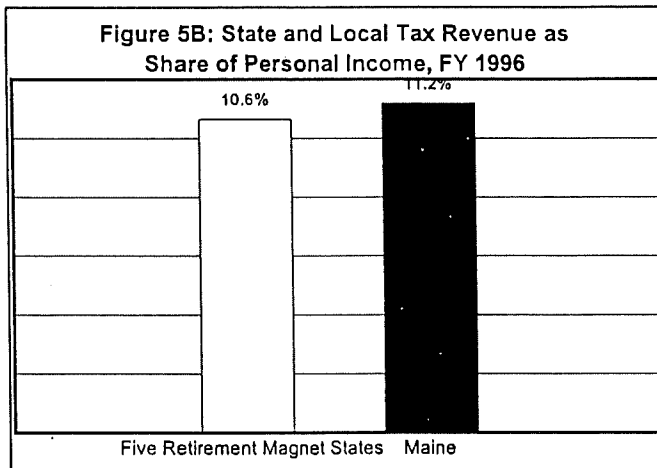
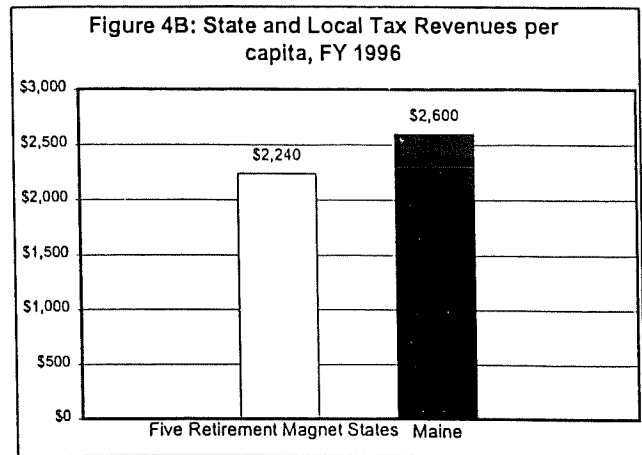
Like Maine, the selected retirement magnets have lower-than-average public spending on a *per capita* basis. Unlike Maine, they also display lower-than-average levels of public spending relative to personal income (though the gap is a modest one.) These states share the national pattern of rough parity between state and local government expenditures—a pattern from which Maine departs, with its outsized state share of total spending.



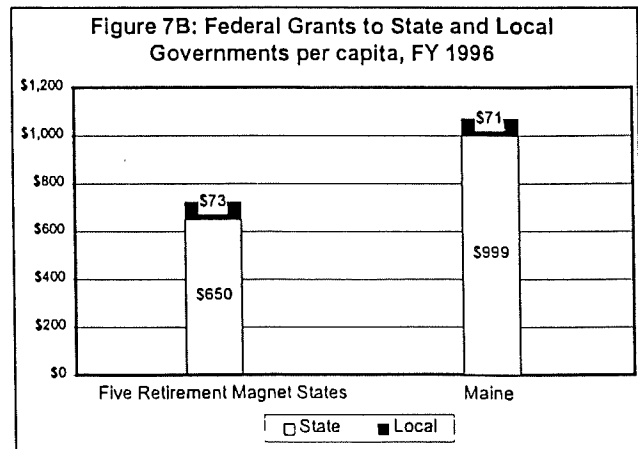
⁶ The states included in this reference set are the four states outside New England selected for comparison in the tax section of *A Golden Opportunity: How Maine Can Enhance The Retirement Industry*, with the addition of Virginia, a prominent destination for military retirees.

As a group, the retirement magnets levy state and local tax burdens that are somewhat lower than Maine's (and lower than the national average) both on a *per capita* basis and relative to personal income. State taxes are a higher share of the state-local total in the retirement magnet group than in Maine.

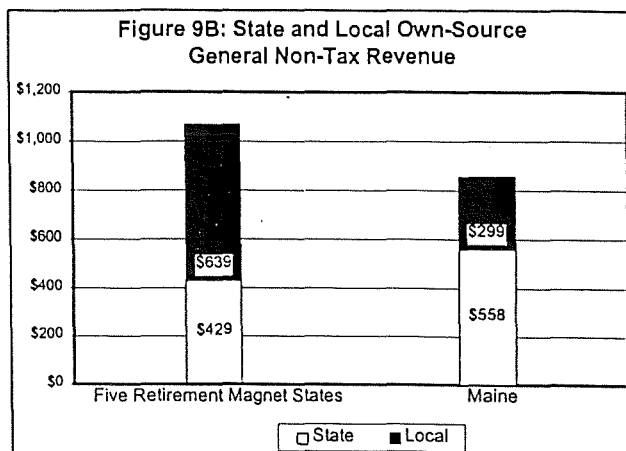
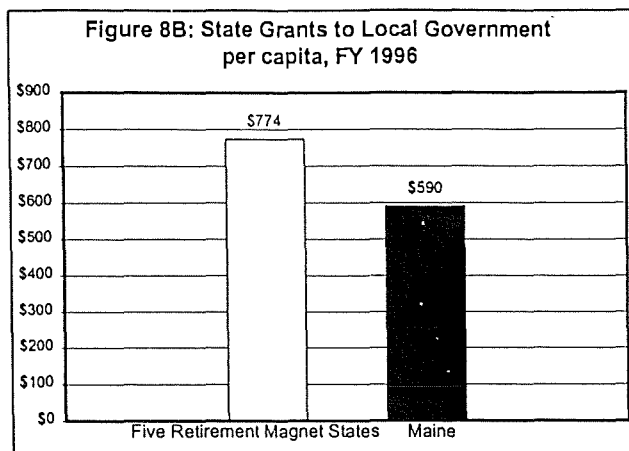
The retirement magnet group, like Maine, has lower-than-average levels of Federal grants to local government. But while Maine shows unusually *high* levels of Federal



grants to state government, the retirement magnets feature unusually low levels.⁷ State grants to local government tend to be low in the retirement magnets, though not as low as in Maine. And on the issue of own-source revenues other than taxes, the retirement magnets display the opposite pattern from Maine: Local non-tax revenues above the national average, state non-tax revenues below the national average. In general, this reference group presents an exaggerated version of the national average, where the state share of *taxing* exceeds the state share of *spending*. In Maine, by contrast, Federal grants and non-tax revenues accrue disproportionately to the state, and state grants to local governments are limited.



⁷ This is in part because of Maine's higher-than-average highway spending, on a *per capita* basis, and partly because of categorical Federal grants that are roughly proportional to a state's own anti-poverty spending, which is high in Maine and generally low in Arizona, Florida, the Carolinas and Virginia.



The *per capita* state tax burden averages about \$100 lower in this group than it does in Maine. But at the local level, the average tax discount relative to Maine is more than two and a half times as great--\$1,074 in local taxes for Maine, and \$265 lower, on average, for the retirement magnets. Comparing Figures 11B and 12B explains this gap: These five states make exceptionally light use of (mostly-local) property taxes, and exceptionally heavy use of sales taxes. Maine departs from the national pattern in precisely the opposite way. The difference between Maine and these five states in income taxes is noticeable, but far more modest (at least in terms of *per capita* averages): In Maine, individual income taxes are 22 percent of state and local taxation (a bit above the national average) while in the reference group individual income taxes account for 19.2 percent of the total. As will be discussed at more length below, the *per capita* picture can conceal large, and potentially consequential, variation among categories of taxpayers. But it is interesting to observe that the big distinction between Maine and the average for Arizona, Florida, the Carolinas and Virginia concerns the balance between local property taxes and state sales taxes, with the income tax share a secondary area of difference.

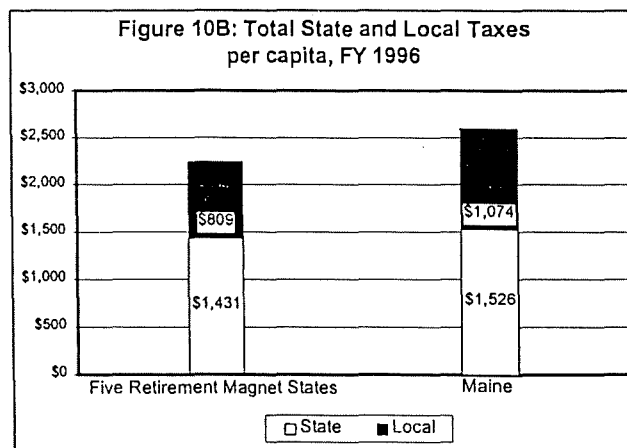


Figure 11B: Per Capita State and Local Taxes,
Five "Retirement Magnet" States FY 1996
(total = \$2,240)

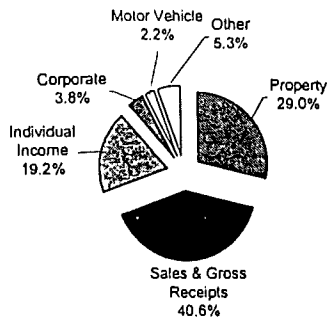
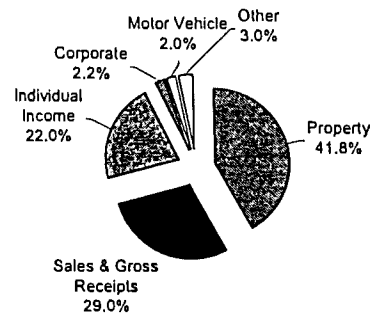


Figure 12B: Per Capita State and Local Taxes,
Maine FY 1996 (total = \$2,600)

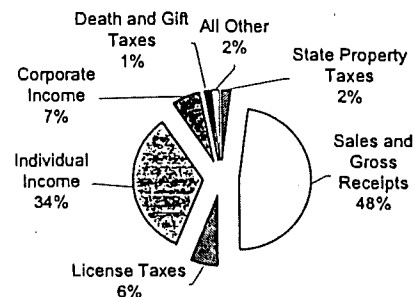


A Closer Look at State Taxation in Maine⁸

The focus now shifts to state taxation, rather than state and local combined. This allows us to use more recent comparative data, since Census Bureau figures are available for state taxation up to Fiscal Year 1998. It also concentrates more precisely on the question of whether changes in state tax policy can improve Maine's appeal to retirees. But the narrowing means that we miss a large part of the "price" of being a Mainer, and some of the most important ways in which government's burden differs between Maine and other states.

Maine's *per capita* state taxation was \$1,901 in 1998. This was about the average for New England, about \$140 higher than the average for all states, and about \$325 higher than the average for the five "retirement magnets" outside New England. While states vary tremendously in the relative importance of different categories of taxation, the two biggest slices are typically sales taxes (which tend to be regressive) and individual income taxes (which tend to be progressive.) For the country as a whole, sales taxation accounted for 48 percent of the *per capita* tax burden in 1998, and individual income taxes accounted for 34 percent. The most striking difference between Maine and the five retirement magnet states (in terms of state taxes alone) is in their symmetrical directions of departure from the

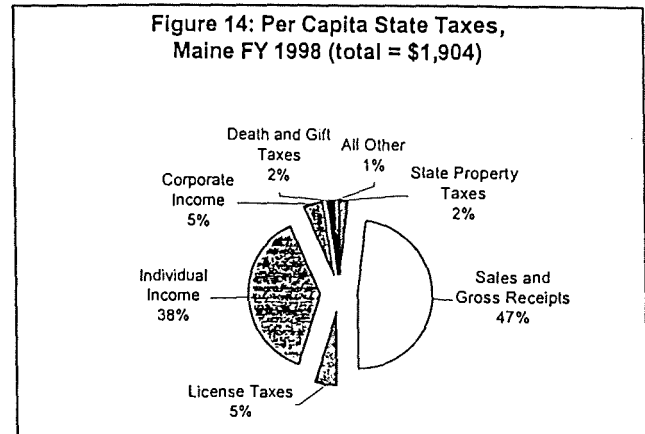
Figure 13: Per Capita State Taxes,
U.S. Average FY 1998 (total = \$1,761)



⁸ This section draws on on-line and printed data from the National Tax Foundation, the Census Bureau, the National Tax Association, the Federation of Tax Administrators, and on information provided directly from Maine Revenue Services.

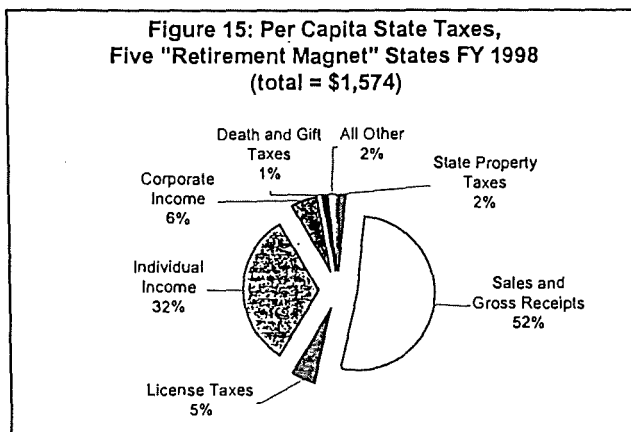
national average on these two taxes. As a group, the retirement magnet states raise 52 percent of their state tax revenue from sales taxes, as opposed to Maine's 47 percent. The five states rely on individual income taxes for 32 percent of tax revenue, *versus* 38 percent for Maine.

The following section discusses some pertinent details of Maine's state taxation, including both the major items—sales and individual income taxes—as well as smaller categories of taxation.⁹



Sales Taxes: Maine raises much more revenue from “general” sales taxes (\$668 *per capita* in 1998) than from “selective” taxes levied on particular types of transactions (\$249.) The two most important selective sales taxes are on gasoline, where Maine's tax rate is around the national average, and tobacco, where Maine's tax is somewhat higher than average. Maine's general sales tax rate is in line with the national average—indeed, following a rate cut in 1998, it is slightly on the low side. Thirteen other states tax general sales at the same 5.0 percent rate that

Maine will levy starting next year. Sixteen states have higher sales tax rates; fifteen have lower rates; and five have no general sales tax at all. The sales tax base is quite narrow, covering only tangible goods and exempting sales of most services. Concentrating on goods rather than services—a practice Maine shares with most other states—tends to make the sales tax somewhat more regressive than it otherwise would be. Tilting it in the other direction is the fact that food and drugs are both exempt from taxation—an exemption that is not offered by many of the states with lower rates than Maine's. This combination of a narrow base and a restrained tax rate—



and, possibly, the frugality that puts a lid on the typical Mainer's consumption—account for the limited contribution sales taxes make to Maine's state revenues.¹⁰

Corporate Income Taxes: Corporate income taxation accounts for about five percent of Maine's state tax revenues, compared with about six percent for the retirement magnet states and about seven percent for all states. This lower-than-average share is partly due to differences in corporate profits recorded in a state, and partly due to a corporate tax system that is less

⁹ This section makes extensive use of comparative data, as of July 1999, assembled by the Federation of Tax Administrators and published on-line at <http://www.taxadmin.org/>.

¹⁰ While this issue extends beyond the mandate of our report, we find it surprising that Maine makes such limited efforts to shift the sales-tax burden toward tourists and seasonal residents.

aggressive than in some other states. The rate starts at 3.5 percent and rises through four brackets to reach a maximum of 8.93 percent. Twelve states have higher top rates on corporate income than Maine's. In all of these, the top rate is either a "flat" levy on all corporate income, or begins at or below the \$250,000 threshold for Maine's top corporate bracket.

Individual Income Taxes: Maine has a notably progressive individual income tax system. The top rate of 8.5 percent is exceeded by only seven states (and matched by one, Minnesota.) Moreover, Maine's top state tax bracket is reached at relatively low income levels--\$16,500 for an individual, and double that for a married couple filing jointly. Only in Oregon can a taxpayer face a higher marginal rate at a lower level of income.

In addition, Maine employs a sweepingly inclusive definition of income. Capital gains, for example, are treated the same as ordinary income. There is a large and contentious academic literature on whether this makes sense. Some analysts argue that capital gains should be taxed more lightly, in order to stimulate investment and reward enterprise. Many believe that at a minimum, measured capital gains should be adjusted for inflation, to avoid taxing phantom increases in value. But other analysts point to the complexity, waste, mischief, or unfairness that can be triggered by treating capital gains in a different way from labor income or other types of investment returns. (The special issue of capital gains is taken up again at the end of this report.)

Of at least equal relevance, for purposes of this report, is Maine's treatment of retirement income.¹¹ Among the 41 states with broad-based individual income taxes in 1996, most (including Maine) exempted Social Security benefits from taxable income. (None of the "retirement magnet" states taxed Social Security benefits, although two New England states—Connecticut and Vermont—did so.) While the Federal income tax exempts all Social Security benefits at lower income levels, it taxes a fraction of the benefits of higher-income retirees. Maine simply excludes Social Security from taxable income. (A short-lived legislative initiative in the spring of 1999 would have shifted Maine's tax code to federal treatment—partly taxing Social Security benefits for higher-income beneficiaries—but was vetoed before it took effect.) But that is the extent of Maine's special tax consideration for retirement income. The AARP lists Maine as one of only eight states offering no exemption for any retirement earnings that are counted as Federal adjusted gross income, including military and civilian Federal pensions, state and local retirement benefits, and private pensions.¹² (Like the other seven states in this category—with the exception of Connecticut—Maine does offer some form of special tax treatment for older taxpayers, in Maine's case a state tax credit equal to 20 percent of the federal tax credit for the elderly.)

Of the five "retirement magnet" states, Florida has no individual income tax, so the issue of special treatment for pension income is irrelevant. Three of the others—Arizona, North Carolina, and South Carolina—excluded a portion of pension benefits (ranging from \$2,500 to \$10,000) from taxable income. The remaining "retirement magnet," Virginia, offered an age-based partial exemption for all income, whether derived from pensions or other sources.

¹¹ This section draws heavily on *State Taxation of Social Security and Pensions in 1996* by David Baer of the American Association of Retired Persons Public Policy Institute. It does not reflect the post-1996 state tax changes catalogued below.

¹² The others were California, Connecticut, Nebraska, Ohio, Oregon, Rhode Island, and Vermont.

Taxpayers between 62 and 64 could exclude the first \$6,000 of income from taxation; those over 65 could exclude the first \$12,000. (In each case, joint filers could double the exclusion.)

Post-1995 Tax Reductions in Other States

The states endured nearly a decade of budgetary stress starting in the mid-1980's, and enacted net increases in taxation during every legislative year from 1986 to 1994. Some of these increases were steep, particularly those introduced during the last recession. Net state tax increases in 1990 approached \$10 billion; the next year's total tax increases exceeded \$16 billion.¹³ The tide turned in 1995, as political and economic developments led to net state tax reductions of \$3.3 billion nationwide. The tax-cut tide strengthened through the late 1990s, with four sequential years in which tax reductions exceeded tax increases at the state level. The net reduction was \$4 billion in 1996, \$2.6 billion in 1997, and a remarkable \$7.1 billion in 1998¹⁴

While there have been notable reductions in many categories of state taxation—including disproportionate cuts in corporate income taxes and less-than-proportionate reductions in sales taxation—a large share of the reductions have been in individual income taxes. The Appendix to this report describes all of the state income tax reductions with a net effect of \$50 million or more enacted between 1995 and 1998.

The Appendix also describes all income tax reductions, including those below the \$50 million threshold, that target (or disproportionately benefit) retirees or older taxpayers. Nineteen such tax cuts were enacted during the four-year period. In 1995 both Kentucky and Iowa enacted new or expanded exclusions on pension income, and Virginia liberalized its age-based income exclusions (as described above.) In 1996 Michigan allowed senior citizens to claim larger exemptions for interest and dividend income, Oklahoma introduced a partial pension exclusion, and North Carolina enacted a special retroactive refund for pension taxation during the 1980's that subsequently was found Constitutionally questionable. In 1997 Connecticut introduced somewhat more generous treatment for Social Security, Delaware liberalized its pension exclusion, Missouri introduced a pension deduction, North Dakota, Ohio, and Wisconsin enacted preferences for some health-care expenditures—which were not focussed on retirees, but may have been particularly significant for older taxpayers—and South Carolina raised the maximum deduction for taxpayers 65 and older. And in 1998 Missouri liberalized several small age-based tax preferences, North Carolina introduced a tax credit for long-term care insurance¹⁵, and Delaware, Georgia, Iowa, and New Jersey expanded their tax preferences for retirement income.

¹³ National Conference of State Legislatures, *State Tax Actions 1995*, Figure 1, p. 3.

¹⁴ *State Tax Actions 1998*, Figure 1, p. 1.

¹⁵ Maine has had such a credit since the early 1990s.

The Tilt Toward the Top in Maine's Tax Burden

Maine's tax system disproportionately depends on local property taxes and individual income taxes, and relatively little on sales taxes. This pattern is the legacy of many separate decisions, made by many different public officials and accepted by citizens, over a long history. It shares the general pattern of the other New England states (aside from New Hampshire) but displays many distinctive Maine details. And it is quite different from the pattern that characterizes Arizona, Florida, the Carolinas, and Virginia. Mainers have chosen to tilt the burden of paying for government towards more affluent people to a greater degree than the average state, and to a much greater degree than New Hampshire or the retirement magnets outside New England. This, rather than the slightly higher level of *average* taxation, is what most clearly distinguishes Maine, in ways that worry some citizens.

Recall that sales taxes account for about 36 percent of state and local tax revenue nationwide, for a U.S. total of roughly half a trillion dollars. Maine has chosen to go light on sales taxation, and this has consequences for distribution. The burden of sales taxation tends to be shared more evenly than other kinds of taxes. It is true that better-off people often spend more money than less affluent people, and so generally pay somewhat more in sales taxes. But (especially since sales taxes tend to miss most services) a citizen's sales tax liability increases only modestly as his or her income rises. So sales taxes are generally regressive—taking a greater fraction of small incomes than large ones. And some sales taxes, such as tobacco taxes, fall more heavily on low-income citizens in absolute terms, not just relative to their incomes.

Per capita state sales tax revenues in Maine came to a little over \$775 in 1997, according to Census Bureau state finance data.¹⁶ It would be misleading to suggest that every Mainer contributed precisely this amount, or even very close to this amount, in sales taxes. The poorest, or the most frugal, may have spent so little on taxable goods that they contributed only a hundred dollars to the sales tax total. The richest, the most free-spending, or those at a stage in life involving major purchases may have paid several thousand. A back-woods hermit, or a determined tax smuggler, could conceivably avoid sales taxes entirely. But there are built-in constraints on consumption—both upper and lower limits to what's possible—that put some boundaries around how much anyone is likely to depart from the *per capita* average.

That same year, *per capita* individual income tax revenues were about \$620. In contrast to the per-person figure for sales taxes, however, this tells us next to nothing about how heavily the income tax weighed on any particular individual. Administrative data from Maine's Bureau of Taxation for that year illustrate how skewed toward the top of the income scale is the actual burden of this tax.¹⁷ The Bureau organized the 572,260 income returns it received into ten groups of equal size, or "deciles," arranged in order of income. The lowest tenth of tax returns, for example, reported adjusted gross income of \$3,667 or less. The highest tenth had income

¹⁶ Census Bureau state finance data from <http://www.census.gov/govs/state/97stme.txt>, accessed September 1999. Local sales tax data for that year are not available, but the previous year local sales taxes contributed a trivial share of the total.

¹⁷ "Maine Individual Income Decile Report, Tax Year 1997, all filers" Printout dated January 10, 1999 and supplied to authors by Michael Allen of Maine Revenue Services.

exceeding \$65,704. The Bureau then recorded the income tax liability for each of these “deciles” of 1997 tax returns. (Since the majority of the returns were for married couples or heads of households, the following figures are not directly comparable to the per-capita figures derived from Census data that are discussed above.) The decile reporting the lowest incomes had an income tax liability averaging \$16 per return. Not until the fourth decile, with income between \$16,902 and \$22,075, did average income tax liability exceed \$100.

But Maine’s progressive tax code means that the income tax rises very steeply as income increases. The fifth decile, just below the average income for all returns, had an average tax liability of \$392. The sixth, just above the average income, had an average liability of \$658. By this point the top rate of 8.5 percent was in effect for each incremental dollar of taxable income for most returns. Maine taxpayers in the next-to-highest decile, with adjusted gross income of \$47,908 to \$65,703, owed an average of \$2,436 in income taxes. And the top decile, with incomes exceeding \$65,704, owed an average of \$7,970. This top ten percent of taxpayers bore nearly fifty-six percent of the total income tax liability. These comparisons illustrate why Maine’s unusually heavy use of income taxation and light use of sales taxation shifts the burden of financing state government toward higher-income Mainers.

This becomes even clearer when the top ten percent of tax returns is itself sorted by income, as the Bureau of Taxation has done. Table 1 summarizes the average income tax liability for each fifth of the top ten percent of taxpayers—each group consisting of 11,445 tax returns, most of them joint returns for married couples.

Table 1

<i>Fraction of top 10% of 1997 Maine tax returns</i>	<i>Adjusted Gross Income Range</i>	<i>Average Income Tax Liability</i>
Lowest fifth	\$65,704 to \$71,605	\$3,347
Second fifth	\$71,606 to \$79,816	\$3,883
Middle fifth	\$79,817 to \$93,739	\$4,667
Second-highest fifth	\$93,739 to \$128,777	\$6,284
Highest fifth	\$128,778 and up	\$21,670

A Maine couple with income in the high five figures, who probably do not think of themselves as particularly wealthy, can confront an annual state income tax bill roughly equal to the cost of a good used car. At the very top of the income range the income tax bill can equal or exceed a year at the priciest private college. It is true that taxpayers who itemize their deductions—as do many, but by no means all, high-income people—can subtract most of what they pay in state income taxes from their Federal taxable income. This softens the blow somewhat. But it is nonetheless clear that even if Maine’s taxes may not be grossly out of line *on average*, income taxes can loom large for high-earning Mainers.

It would be quite surprising if higher-income Mainers, including those who consider themselves simply middle class, did not occasionally grumble about income taxes. Many Mainers—not just the wealthiest—vacation outside the state during the winter. It is easy to see how a Maine couple, returning from the vacation cottage in late winter and starting the tax

paperwork, might muse about making a switch: Why not *reside* in some warm, low-tax state, and *vacation* in Maine?¹⁸ Most younger people—anchored by jobs or children in school—will quickly dismiss the thought. But retirees, or those contemplating retirement, may take it more seriously. Some surely follow through on the idea, just as some seasonal Mainers avoid becoming residents for tax reasons. The question is whether such decisions are common, or rare, and what the net consequences would be of rendering Maine’s tax system more hospitable to better-off retirees.

Assessing Tax Strategies for Attracting and Retaining Retirees

Would Maine benefit by changing its tax system to keep more retired Mainers and to induce more out-of-staters to retire in Maine? We first lay out the logic of answering this question, and then turn to some relevant evidence.

The net consequences of a tax reduction aimed at increasing the number of retirees can be most simply described as:

- *the number of retirees who stay or settle in Maine BECAUSE OF the tax change*
- *TIMES the average net benefit to Maine of an extra resident retiree*
- *MINUS the revenue Maine gives up without changing anyone’s behavior.*

We will attempt to clarify each of these elements in the following sections.

The Net Gains to Maine of Extra Retirees

The middle element—the average net benefit of keeping, or gaining, a retiree who would otherwise reside elsewhere—has several components. The most obvious is income tax revenue. Consider someone who is completely retired, and hence has no Maine-source earned income that would be subject to taxation regardless of residency. Suppose that this retiree’s pension and investment income are high enough that (under current law) he would face a Maine income tax liability of \$5,000. And suppose that he therefore maintains his legal residence elsewhere, carefully managing his calendar to spend less than half his time in Maine. If a tax-code change reduced his Maine liability to \$4,000, *and* if this changed his mind about Maine residency, then the \$4,000 would be a revenue gain for Maine.

Maine also stands to collect auto license and registration fees from the majority of incremental retirees. It can expect eventually to collect additional estate taxes, if the extra retiree

¹⁸ It is similarly easy to imagine how a vacationing out-of-state family might be charmed by Maine and contemplate settling there, but give up the dream after consulting the tax code.

remains a lifelong Mainer and leaves a large estate. Local government may collect higher property taxes, if the retiree's home ownership raises overall property values.

The extra retiree is likely to bring benefits to Maine beyond extra taxes. If residency means that he spends more time in Maine than he otherwise would, he and his family will almost certainly spend more on locally produced goods and services. Even if his time in Maine doesn't change greatly, his spending on certain services—such as banking or legal services—is likely to increase if he becomes a Maine resident instead of a visitor. He may also be more inclined to invest in Maine businesses, or to engage his expertise as a formal or informal counselor. And he may be more likely to make (or maintain) charitable contributions in Maine than he would be if he remained (or became) a visitor rather than a resident. Moreover, there are gains to keeping or attracting retirees beyond economic ones. Extra resident retirees can enrich Maine's culture and civic life, and may spend more time with family and friends than they would if they were required to keep an eye on the calendar to maintain non-resident status.

On each of these dimensions, however—the public fisc, the private economy, and civic life—there can be losses to other Mainers, as well as gains, from an extra retiree. State and local government will have to provide more in certain kinds of services. Well-off retirees may bid up housing prices in some areas. Their priorities could diverge from those of younger or poorer people, complicating the task of reaching community consensus. Even if the net gain for other Mainers from keeping or attracting an extra retiree is likely to be positive, these offsets are real.

Two overarching observations warrant emphasis at this stage.

First, not all of the benefits (and costs) retirees bring to other Mainers depend on legal *residence* in Maine. Some—including income taxes—clearly do. Others, such as auto registrations or banking and legal services, are very strongly associated with legal residence. But some, such as sales taxes paid and the broader effects of engagement with Maine's economy, are more or less proportional to time spent in Maine. If a non-resident retiree spends 49 percent of her time in Maine, other Mainers get 49 percent of the benefit; likewise if a resident retiree spends 51 percent of her time in Maine. And other impacts are related to residency in subtle and hard to measure ways. A native Mainer who spends part of the year in Florida may, or may not, abandon the habit of contributing to Maine charities if she changes her legal residence. A retired out-of-stater with a Maine summer home may, or may not, share business expertise and contacts with local entrepreneurs. Legal residency improves the odds of many kinds of benefits accruing to Maine. But few of these categories have the all-or-nothing characteristic of taxes on retirement income.

Second, most of the benefits and losses associated with incremental resident retirees are, in principle, measurable. But they can be estimated with varying degrees of precision. It is very easy to estimate net benefits badly.¹⁹ It is quite difficult to do it well. The likely payoff to

¹⁹ To take just a couple of the many estimating hazards: It may seem that local property taxes paid by a retiree should be counted as a benefit to Maine of his residency. But this would only be true if the retiree would not own the property if he were a part-year resident, and that the value of the property would be appreciably lower if it were in the hands of an alternative owner. Similarly, the prospect of collecting estate taxes is a real benefit of attracting or keeping a resident retiree. But the value of this benefit depends upon the length of the retiree's life, the probability that he will remain in Maine until death, the size of the estate at death, the status of Federal and Maine

attempting to pin down the average net benefit per retiree greatly depends on the other parts of the picture: The probability of altering retirement decisions by changes in tax policy, and the consequent revenue losses. If the odds of changing a retiree's location decision are high, or if the cost of changing the tax code to induce more retirement is low, then the net benefit of an incremental retiree becomes a very interesting issue. If it is very difficult or very expensive to alter retirement decisions, conversely, calibrating the precise benefit becomes somewhat academic.

The Impact of Taxation on Retirement Location Decisions

If "taxation is the price we pay for civilized society," then state and local taxation can be thought of as the price of enjoying civilization in one particular bit of terrain rather than another. And taxes that depend on formal residence can be thought of as the premium to be paid for the extra advantages of citizenship.

Some location decisions are highly sensitive to differences in tax levels; others are not. The influence of an interjurisdictional tax differential depends on two kinds of considerations. One is the scale of the difference in the net tax bill between two alternative locations. The other is the importance of taxation relative to other locational considerations. Even modest tax differentials can drive location decisions if there are only trivial differences between alternative locales on other dimensions. Conversely, if locales differ significantly on dimensions the decision-maker cares a great deal about, even very large tax differentials may be irrelevant.

While state and local taxes will never be the *only* consideration in business location decisions, for example, they often matter. Taxes directly affect after-tax profit, an important item for most businesses. As the American economy shifts toward services and goods produced with modest investments in hard-to-move capital, and as communication and transportation technologies improve, it would be logical to expect taxes to matter somewhat more in business location decisions. When cities and states become closer substitutes for each other—because of weakening dependence on local sources or markets—differences in "price" become more important. There is some evidence that this is occurring.²⁰ At the other extreme is our own institution, Harvard University. As a non-profit organization, Harvard is sheltered from many (though not all) state and local taxes. (Personal income taxes, for example, do affect the University's labor costs.) The practical and managerial costs of moving the institution would be immense. So it would take an extremely large tax differential to influence the University's choice of location.

There is not much of a literature, unfortunately, on the question of retirees' responsiveness to income tax differentials, although the basic question is readily framed.²¹ How

estate-tax law at the time of death, the skill and aggressiveness of the retiree in structuring the estate to minimize taxation, and the time value of money during the years before the estate tax revenues are realized. It is also worth noting that Maine real property is subject to Maine estate taxation even for non-residents.

²⁰ The Appendix of *Disunited States* (John D. Donahue, Basic Books, 1997) summarizes some of the evidence and arguments on this issue.

²¹ While there has been a great deal of scholarly work on the broad question of migration in response to policy differences across jurisdictions, most of this is focussed on corporations, the general population, or welfare

is the number of Maine retirees (whether natives or newcomers) affected by the level of income taxation?

Ignoring, for now, state goals *other* than tax revenue, the challenge can be stated as reducing tax *rates* up to the point where the extra revenue collected from the very last resident to buy in because of the tax cut equals, or just exceeds, the revenues surrendered through the very last fraction of a percent of tax-rate reduction. This is comparable to the challenge an airline faces in setting its ticket prices. Higher prices mean more revenue from each passenger, but more empty seats. Lower prices fill the plane, but reduce the profit per head. Airlines that prosper are those that become skillful at striking the right balance, and realistic that the right price may not fill every seat.

Airlines have learned that they can do better if there is not a single price, but a range of rates that take advantage of passengers' differential responsiveness to cost. Some passengers have urgent business and no other options, and are ready to pay a lot. Others may be traveling on a whim, or have many alternatives in how or when they travel, so a few dollars' difference will determine whether or not they buy. Airlines work hard to set ticket terms and conditions that charge high prices to the first group, and charge low prices to the second. The more clever the airline is at structuring its pricing scheme (and the less successful are passengers at beating the system) the higher the airline's profit and the smaller the waste of empty seats.

The ideal for the airline, of course, would be to somehow know *exactly* what the trip is worth to each passenger, and setting the ticket price on a person-by-person basis. The woman with no other options to reach the lawyer's office in Duluth before the deadline passes for claiming her inheritance would be charged \$100,000. The man thinking he might like to drop in on his cousin would be charged the cost of the extra fuel and peanuts, plus a penny. Failing omniscience, and complete discretion in setting prices, an airline's pricing system will fall short of its ideal: Some seats will go empty, and some passengers will be charged less than what they would be willing to pay.

recipients. (A good early example of this more general literature is Michael J. Boskin, "Local Government Tax and Product Competition and the Optimal Provision of Public goods," *Journal of Political Economy* volume 81, number 1, January-February 1973.) Our previous work in this area, supplemented by a thorough literature search conducted specifically for this report, identified only four attempts to empirically calibrate the responsiveness to tax differentials of older people's residency decisions. One showed that when one of Australia's states abolished death duties which remained high elsewhere, it gained a higher share of elderly Australians. (Philip J. Grossman, "Fiscal Competition Among States in Australia: The Demise of Death Duties," *Publius* 20, number 4, Fall 1990.) Another looked at elderly whites (among many other groups) and found them to be more likely to leave a state with high property taxes or high welfare spending, but otherwise not very responsive to taxing and spending. (Richard Cebula and R.M. Kohn, "Public Policies and Migration Patterns in the United States," *Public Finance* 30, 1975) A third found that elderly in-migrants were more likely to choose states without any income taxes. (Richard Cebula, "A Brief Empirical Note on the Tiebout Hypothesis and State Income Tax Policies," *Public Choice* 67, 1990.) The most recent and most directly relevant study of elderly migration controlled statistically for climate, crime, the cost of living, and other factors that might affect older people's residency decisions. It found that a high share of property taxes or income taxes in a state's fiscal profile seems to encourage out-migration of the elderly. But puzzlingly, it found that the very same factors seem to encourage *in*-migration of the elderly, to at least an equal degree and with at least equal statistical significance. (Karen Smith Conway and Andrew J. Houtenville, "Do the Elderly 'Vote With Their Feet?'" *Public Choice* 97, 1998.) The scholarly literature, in sum, is something short of conclusive on the issue.

The State of Maine is not an airline, of course, and no civilized tax system would aim to squeeze each citizen up to the point where they're ready to flee across the border. But the analogy may be helpful to illustrate several important and potentially elusive points. Citizens, like customers, differ in their responsiveness to the "price" of taxation. If citizens differ but tax rates are uniform, Maine is certain to lose some current or potential retired residents whom it would prefer to keep or attract. Many of those "lost" retirees offer benefits to other Mainers that would amply justify reducing their taxes—even offering them subsidies—to induce them to retire in Maine. But it does not follow, sadly, that such a deal can be struck. The key question is the balance between the number of people who will reside in Maine *only* if their income taxes are lowered to some specified degree, and the number of Mainers who will benefit from the tax reduction but will not make any change in their behavior.

The challenge flows from the fact that taxpayers differ both in their *circumstances* and in their *preferences*. For some, the preferences will be decisive for where they settle in retirement. For the middle-income taxpayers who are dyed-in-the-wool Mainers, with their hearts set on spending their retirement years in their own town near the neighbors they have known for decades, tax considerations will be virtually irrelevant. Their post-retirement incomes are modest, and the tax savings they could reap by moving to some other state will be trivial in comparison to what they would have to give up—neighborhood, friends, community—to obtain it. On the other extreme of the "preferences" scale, some older citizens are so firmly determined to flee the winter, once cut loose from work and family anchors, that no imaginable tax cut would have any impact on their decision to retire outside of Maine.

Similarly, households with very low incomes will not be affected much by tax policies, because they will pay relatively little in taxes (especially income taxes) no matter where they reside. To an even greater extent than middle-income retirees, their locational decisions are likely to be dominated by their preferences, because their circumstances are such that the tax differences across locations are immaterial.

By contrast, consider a fortunate couple contemplating retirement with a net worth in the tens or hundreds of millions of dollars. Here, their *circumstances* are likely to imply such large differences in tax bills across locations that it will be hard for their preferences to win out. Such a household will have substantial post-retirement income, and may face a one-time event from the sale of a business or assets that will create a very large amount of taxable income. For such a couple, the tax differential between Maine and several other states (one of them immediately adjacent; another with warm winters) will be enormous. In many cases the differential may be so large that nothing but radical revisions to Maine's tax system is likely to make much difference in their formal state of residence. Unless Maine is prepared to emulate the zero income tax rate of some of its sister states, very wealthy people (unless their preference for Maine citizenship is exceptionally strong, or their interest in transferring wealth to later generations is exceptionally weak) will shift their formal residence to another state. Modest reductions in tax differentials will not matter much.

So who *might* be affected by a modest change in tax rates? People with *moderate* amounts of income and assets, whose preference for Maine citizenship is weak enough to be counter-balanced by the financial calculations about tax payments. These households are in

circumstances that make tax differentials material, and have preferences that are not so strong as to overrule those tax differentials. It is this group—a narrowly defined subset of retirees or prospective retirees—whose location decisions could be affected by a moderate change in Maine’s tax system.

But in order to affect the decisions of such households—who, like the price-sensitive airline passengers in the analogy above, can be hard to identify—Maine would have to give a tax reduction to taxpayers with a stronger preference for retiring in Maine. The high-income taxpayers won’t be much affected – they will shift their formal residence anyway. The low-income taxpayers won’t be much affected—they will stay or go as their preferences dictate, but taxes won’t matter much because they don’t pay much in taxes. The moderate-income households who are strongly committed to Maine won’t have their decisions altered—they were staying anyway.

So the problem, from a tax design perspective, is this: To alter the location choices of that sub-group of retirees who might otherwise leave Maine, or avoid settling in Maine, tax reductions will also have to be extended to what is likely to be a larger group of retirees who are committed to Maine. And unless the tax reduction can be narrowly targeted on retirees—a group which is not precisely defined by age—Maine will also sacrifice revenue from a much larger group of non-retired citizens who were not contemplating a move in any event. Figure 16 summarizes this logic.

Figure 16: Predicted Effects of a Modest Income Tax Reduction on Different Groups²²

Circumstances: → Preferences: ↓	<i>Low income/wealth</i>	<i>Moderate income/wealth</i>	<i>High income/wealth</i>
<i>Strongly prefer Maine</i>	No change: will stay either way	No change: will stay either way	Little change: may stay either way or go either way
<i>Weakly prefer Maine</i>	No change: will likely stay either way	Some change: may stay if taxes are reduced; may go if not	No change: will leave either way
<i>Prefer other location(s)</i>	No change: will leave either way	No change: will leave either way	No change: will leave either way

²² Figure 16 is framed in terms of a current resident deciding whether to stay in Maine once retired, but the same logic applies (with slightly different wording) to an out-of-stater considering Maine as a retirement residence.

Clues to the Impact of Maine's Income Taxation

Two of the categories in Figure 16 *do* show significant responsiveness to taxation—the moderately well-off with a real but not absolute preference to retire in Maine, and affluent people with a stronger preference to retire in Maine. Are these two groups large enough, and responsive enough to tax differentials, that a moderate-to-large income tax cut would lead to major changes in the number of retirees residing in Maine? The only way to know this for sure, perhaps, would be a national program of interrogation under hypnosis to learn how much taxes *really* matter, relative to Maine's many virtues. But fortunately (for purposes of analysis, at least) Maine's tax system is sufficiently extreme that some strong hints about the impact of taxation on retirement location can be harvested by milder means. The tax differential between Maine and other states is large enough that if income taxes were major determinants of many retirement location decisions, that effect should show up fairly clearly in patterns of migration. In particular, both the top destination for migrating retirees (Florida) and one of Maine's neighbors (New Hampshire) offer radically different tax systems that are on balance less burdensome for higher-income retirees. We have a sort of natural experiment—not perfect, perhaps²³ but clean enough for confidence that if taxation has a big impact on retirement location decisions, this impact should be discernible in the data.

We have employed three types of data for this purpose—demographic information from the Census Bureau; summaries of tax-return data from the U.S. Internal Revenue Service; and a special analysis of selected state income tax returns conducted by Maine's Revenue Services.²⁴ The three data sources allow us to triangulate on the question of whether Maine's high income-tax levels are a major deterrent to attracting or retaining retirees, especially higher-income retirees.

Evidence from Census Data

The 1990 Census collected information on where respondents had been living five years previously. We obtained a random sample of one percent of 1990 Census responses. This is one percent of roughly a hundred million responses, so the sample size is large enough to identify major features with some reliability.²⁵

²³ We would know more, for example, if Maine and New Hampshire had maintained similar tax systems for a long time, and then diverged sharply a decade ago. Since the differences are long-standing, the two states' populations probably vary in their responsiveness to taxation, so they don't present a clean comparison of the impact of different tax regimes.

²⁴ The Census data were analyzed by Stephen Minicucci. The IRS analysis was supplied, and the Maine Revenue Services analysis directed, by Michael Allen, whose extensive assistance is gratefully acknowledged. All Maine and IRS data were aggregated before they were provided to us, to ensure the protection of taxpayer confidentiality.

²⁵ Some of the details—such as migration rates by age and income in a single state—suffer more from potential sampling error. The sample is from Steven Ruggles and Matthew Sobek *et al*, Integrated Public Use Microdata Series, Version 2.0, Minneapolis Historical Census Projects, University of Minnesota, 1997, accessed at www.ipums.umn.edu between June and September 1999 by Stephen Minicucci.

Interstate moves are relatively rare events. A majority of Americans had the same address in 1990 as they had in 1985. (Nationwide, 54.8 percent of the sample had the same address. Mainers were slightly more rooted than average, with 57.3 percent staying put for the five-year period.) People who *do* move generally don't go far; most moves are within the same town or close to it. Only 11.1 percent of households lived in a different state from their residence of five years previously. Not surprisingly, younger people are more likely than their elders to move from one state to another, transplanted by educational or career opportunities or by marriage. Nearly 17 percent of households headed by someone younger than 45 made an interstate move, compared to 8 percent of those between 45 and 54, 5.7 percent of those between 55 and 64, 4.8 percent of those between 65 and 74, and 3.1 percent of those older than 75.

A 1995 Census Bureau report based on the entire Census—rather than the sample we use for the more detailed analysis—found the following demographic pattern for Maine between 1985 and 1990:

Migration into Maine from other states:	132,006
Migration from Maine to other states:	98,668
Net international migration to Maine:	10,773

Over that period, then, about 33,000 more people left other states to live in Maine than left Maine for another state, in addition to the net gain of 10,773 from other countries. This is better than losing population, to be sure, but if we hope to understand the specific impact of taxes on retirees' location decisions, we need more detail on who came, who left, and where they went. For these details we leave the Census Bureau's full-population report and turn to an analysis of the one-percent sample. Remember, however, that specific numbers cited here should be treated as approximations. The more finely the sample is sliced, the more caution needs to be exercised in drawing inferences about patterns in the broader population.

Within the one-percent sample of the 1990 Census, 524 people who headed Maine households in 1990 had moved from some other state since 1985. The major states of origin for new Mainers were Massachusetts (21 percent), New Hampshire (10 percent), New York (7 percent) and California (5 percent.) At the same time, 338 household heads who were living elsewhere by 1990 had moved from Maine since 1985. The major destinations for these emigrants were Massachusetts (14 percent), Florida (also 14 percent), New Hampshire (12 percent), Virginia, California, and New York (each around 6 percent.)

Extrapolating from the one-percent sample suggests that about 18,600 more *households* moved to Maine than left Maine between 1985 and 1990—consistent with the whole-Census figure of about 33,300 *individuals*. This offers some reassurance that the sample gives a reasonably accurate picture of the ins and outs of the other 99 percent. And it underscores the significance of the finding from the sample that Maine gained population from most states and every region, with one major exception. Many more people in the sample moved *to* Florida than came *from* Florida. If the pattern of the sample reflects the whole population, Maine's net loss to Florida between 1985 and 1990 was roughly 3,000 households.

There is no Census category for “retired,” but focussing on Census respondents age 55 and older offers an approximation of people contemplating, or already in, retirement. Within the sample there were 88 Maine households, headed by someone 55 or older, that had been living in another state 5 years earlier. And there were 51 such households living elsewhere that had been living in Maine in 1985. This implies a net gain of 3,700 households headed by older people during the five-year period. Given the small number of older people in the sample, there is a margin of error around this inference, though we can be quite confident that Maine did enjoy a net gain. Over half of the 55-and-older newcomers to Maine had been living in other New England states five years earlier. Of those who had left Maine since 1985, fully 45 percent were living in one state—Florida—in 1990; another 18 percent were living in New England, but outside Maine.

By arranging Maine newcomers and emigrants along two dimensions—55 and older, and under 55; 1990 household income of less than \$45,000, and \$45,000 and over—it is possible to use the sample data to gain some purchase on a central question: Are better-off retirees *more* likely to leave Maine, and *less* likely to come to Maine, than are less affluent retirees? A strong differential would hint that Maine’s high income taxes do indeed repel retirees.

Among Mainers younger than 55 the sample suggests income had no effect on the odds of leaving; the same fraction of both the higher and lower income groups—ten percent—left the state between 1985 and 1990. Among Mainers 55 and older, however, only 2.6 percent of those earning less than \$45,000 moved to another state, while 6.2 percent of those earning over \$45,000 emigrated. This is a large enough difference to be statistically significant (even with so small a sample.) While there may also be reasons other than taxes for this pattern—richer retirees may be able to keep a Maine home even if they legally reside elsewhere, for example—this result hints that taxes may indeed matter to retirees.

This hint is complicated, however, by looking at older people who *came* to Maine between 1985 and 1990. Less-affluent newcomers increased Maine’s population of older people earning less than \$45,000 by 5 percent during this period. At the same time, newcomers older than 55 and earning more than \$45,000 increased Maine’s population of affluent older households by 7.4 percent.

The sample comparisons, summarized in Table 2, suggest that Maine is an appealing destination for both high-income and low-income older people. It increased its population of less-affluent older people by a larger amount: The number of poorer seniors increased by 2.4 percent, and of richer seniors by 1.2 percent. But Maine’s advantages were apparently great enough to outweigh high taxes for many higher-income retirees, whether they originated in Maine or came from elsewhere, as it recorded a net gain even among households who would be subject to the top income tax rate.

Table 2

Households heads 55 or older in 1990	<i>Left Maine for another state between 1985 and 1990</i>	<i>Came to Maine from another state between 1985 and 1990</i>
<i>1990 income under \$45,000</i>	2.6 percent²⁶	5.0 percent
<i>1990 income \$45,000 or over</i>	6.2 percent	7.4 percent

This is comforting, though far from conclusive. For one thing, the small sample size makes it hazardous to reach firm conclusions based on this Census sample alone. (The net gain of high-income older households in the one-percent sample was a grand total of three.) One way to gain some confidence that taxes do not pose a major deterrent to retirement in Maine is to compare the pattern in Maine with the pattern in New Hampshire. The two states are comparable in climate and geography, and not too radically dissimilar in culture. But they differ fundamentally in tax policy. Maine's taxes are about as tilted toward the top as any in the nation, while New Hampshire (with no income tax) spares high earners and funds its austere public sector largely through local property taxes. If taxes matter greatly in retirement location decisions, we should expect to see *fewer* affluent older people leaving New Hampshire, and *more* choosing to settle in New Hampshire, than we see in Maine.

Table 3

Households heads 55 or older in 1990	<i>Left New Hampshire for another state between 1985 and 1990</i>	<i>Came to New Hampshire from another state between 1985 and 1990</i>
<i>1990 income under \$45,000</i>	7.1 percent²⁷	9.1 percent
<i>1990 income \$45,000 or over</i>	5.8 percent	6.5 percent

Table 3 summarizes the demographic story. New Hampshire *does* seem to lose a smaller fraction of its more affluent older people than Maine. But the difference—5.8 percent of the 1985 baseline versus 6.2 percent—is quite small, and nowhere near statistical significance. At

²⁶ The denominator is the number of 1985 Maine residents who were over 55 and still alive in 1990 for each income level—1389 with incomes under \$45,000, and 242 with incomes \$45,000 and over.

²⁷ The denominator *here* is the corresponding baseline of 1985 older New Hampshire residents—982 with incomes under \$45,000, and 308 with higher incomes.

the same time, New Hampshire increased its population of high-income older households by a little *less* than Maine. And New Hampshire, unlike Maine, attracted less-affluent older households at a higher rate than more-affluent older households.

The limitation of the sample data should be kept in mind, and it would be misleading to declare that high-tax Maine has been proven more attractive to affluent retirees than low-tax New Hampshire. It could be that if taxes were equal between the two states, Maine would have increased its population of high-income older people at ten times the rate of New Hampshire, instead of outpacing it by a narrow margin. But the Census data do challenge the proposition that Maine's tax levels are a major deterrent to higher-income retirees.

Evidence from Maine and Federal Tax Returns

To supplement the Census data, we enlisted the cooperation of Maine Revenue Services in using tax-return records to explore the entry and exit of higher-income people. Michael Allen shared with us an analysis of U.S. tax data prepared by the Internal Revenue Service, and another prepared by his own office. Compared to the Census data these analyses are more recent, more detailed, and look at entire populations rather than a sample.

The IRS analysis matched taxpayers' 1996 and 1997 Federal tax returns and recorded (among other things) the number and characteristics of taxpayers who moved between states during the year. A total of 14,767 people who had been Maine residents in 1996 filed their taxes as residents of a different state in 1997. And a total of 13,718 people who lived elsewhere in 1996 filed as Mainers in 1997. This represents a net loss of nearly 1,050 for that particular one-year interval. But this covers *all* taxpayers—young and old, rich and poor. The IRS analysis does not categorize taxpayers by age or retirement status. But it *does* calculate the income reported by both newcomers to and emigrants from each state. Taxpayers who had *left* Maine reported median adjusted gross income of \$18,082 the following year; taxpayers who *moved* to Maine reported median adjusted gross income of \$20,843. So while the IRS data indicate that Maine *did* lose people, on balance, over that one-year period, the people it gained earned more than the people it lost. Interstate migration seems to have *increased* personal income in Maine by about \$36 million. The IRS data tell us nothing about retirees, but do call into question the notion that Maine's high income taxes are repelling high earners in general.

Finally, Maine Revenue Services did a simple analysis of Maine tax returns looking directly at high-income older people. The approach was straightforward: Identify all of the tax returns filed in 1997 by residents older than 65 and reporting tax liability over \$5,000—representing income in the range of \$100,000 and above. Then see which of those high-income older taxpayers did *not* file the next year. Similarly, identify high-income older people who filed in 1998 but had not filed the previous year. If high-income retirees tend to leave the state, or avoid coming to the state, the first group should be larger than the second group. But in fact, Maine Revenue Services found that “new” high-income older taxpayers outnumbered “lost” high-income older taxpayers by more than two to one. (There were 150 “new” returns and 72 “lost” returns.) This is another piece of evidence, consistent with the IRS analysis and the Census data, casting doubt on the idea that high earners are being charged a prohibitive price for the privilege of Maine citizenship.

This is not to say that Maine's taxes do not repel *some* potential retirees. There are certainly some people who would like to retire in Maine—and whom Mainers would like to have as neighbors—who are deterred by the prospect of Maine taxation. A high-income retiree with homes in both Maine and Florida, for example, would pay an enormous price for the privilege of Maine citizenship. Enacting a large enough reduction in the top marginal income tax rate would almost certainly increase the population of affluent retirees. But the evidence suggests that high-earning older people tend not to put tax differentials at the top of the list as they decide where to spend their retirements. It is thus unlikely that the size of the retiree population will prove highly responsive to changes in tax levels.

Concluding Comments

We are neither equipped nor (as outsiders) entitled to call for specific changes in Maine's tax law. But our findings do suggest a few observations that may prove relevant as Mainers reflect on whether, and how, they should alter the financial obligations they place upon themselves and each other.

There are perfectly reasonable objections to tilting the tax burden so strongly towards the top of the income scale. Maine's tradition of highly progressive taxation is certainly out of synch with national trends in state tax policy. There may be arguments compelling to Mainers for reducing this burden—across the board, or only for those above a certain age. But this should not be done with the expectation of dramatically increasing Maine's appeal to retirees.

For the majority of older people—even those with relatively high incomes—taxes appear to be secondary considerations in their choice of residence. Given the state's special virtues, the “price” of being a Mainer is seen as worth paying by many current and prospective retirees. There *are* those, to be sure, who find the price of Maine citizenship to be prohibitive. Some of these have only a mild preference for Maine residence; others face very large tax differentials. But for those whose location decisions *are* driven by income tax liability—particularly retirees with very high incomes—tinkering with the tax code is not likely to change their minds. It would take very large reductions in their tax liability, with correspondingly large implications for how Mainers finance their public sector.

Both anecdotal and statistical evidence point to Florida—which differs radically from Maine in culture, climate, and fiscal structure—as the most common destination for those who choose to abandon Maine in retirement. Most Mainers don't shift their residence to Florida when they retire. Most of those who *do* aren't primarily motivated by taxes. Some, however, would prefer not to retire in Florida, but choose to do so for tax reasons. The point to emphasize is that altering the choices of this “hard core” of tax refugees almost certainly requires more than minor reductions in the current 8.5-versus-zero percent income tax rate differential. Unless this differential is eliminated, or narrowed dramatically, those who avoid Maine for tax reasons will continue to do so. Even if taxes are reduced, those who avoid Maine for reasons *other than* taxes will also continue to do so. And those who find the current tax burden a fair price for Maine citizenship would contribute less than they are willing to pay. This reduction in revenues is

likely to be large relative to the broader benefits to Maine. This is not because high-earning retirees fall short as neighbors and fellow citizens; they surely offer benefits to other Mainers, including but going well beyond the taxes they contribute. Rather, it is because the number of decisions changed by anything but a radical fiscal restructuring would probably be small.

The net payoff to Maine would be improved by restricting any higher-income tax reductions to older Mainers. Less tax revenue would be sacrificed (in the form of tax cuts for people who had no intention of leaving) for each older person whose retirement location decision turned out to be altered by the tax cut. But most older Mainers *already* retire in Maine—even those with higher incomes—and Maine seems to enjoy a healthy inflow of well-off retirees. So there is not much reason for confidence that even an age-targeted tax break could be introduced without a significant sacrifice of tax revenue. At the same time, age differentials in tax treatment might be seen as unfair, and would likely introduce complexities and inefficiencies into the tax system.²⁸

There are ways to rearrange the tax burden on wealthier Maine retirees—without necessarily reducing that burden—so as to encourage part-time Mainers to be residents rather than vacationers. For example, Maine could introduce a state property tax, structured to effect only the most valuable residences, that would be wholly offset by an income-tax credit. This would leave wealthy Maine residents with the same total tax burden as before, while reducing incentives to emigrate. But such a tactic would complicate the tax code, would be difficult to target precisely, could invite unintended consequences, and may be seen as unfair. Moreover, since many of the benefits retirees bring to Maine (other than income taxes) do not depend on their formal citizenship, promoting residence *per se* may not be so vital a goal as it might seem.

There *is* a reasonable argument for identifying exceptional cases where the “price” of being a Mainer seems both prohibitive and unfair. (This is analogous to an airline defining special categories of passengers for whom regular ticket prices are inappropriate, such as small children, clergy members, or the bereaved.) One such exceptional case may involve the sale of a closely-held business. The value stored up through the labor of many years—even a lifetime—can be turned into taxable capital gains in a single transaction. This sudden spike in tax liability could quite plausibly inspire even the most loyal Mainer to change his state of residence for the year such a transaction occurs. This is typically late in life, as retirement decisions are being made. Such tax-inspired emigration may turn out to be permanent, to the detriment of both the tax émigré and the State of Maine.

This exceptional circumstance could warrant exceptional provisions, such as a one-time opportunity to spread out over five to ten years the capital gains from sale of a proprietorship or partnership, or a large ownership stake in a public corporation in which the taxpayer has played an active role. It may also be worth considering a partial exclusion of the annual allocation of capital gains liability for each year of Maine citizenship following the sale of a business.

²⁸ For example, an entrepreneur might delay selling her business—even if she is ready to retire, and even if the business would be better run in other hands—until she reached the age of eligibility for lower tax rates. New rules would have to be drafted and enforced regarding the tax treatment of couples of different ages, where one partner is eligible for the lower tax rate and the other is not. More broadly, not everyone will endorse better-off retirees as the top priority for a tax reduction. Recall that the Census sample found that younger and less affluent people were more likely to leave Maine (and also more likely to enter Maine) than older people.

Sophisticated taxpayers can already accomplish some of this by the way they structure their asset transfers. But the state may want to make it easier for less sophisticated Mainers to *remain* Mainers as they make the transition from entrepreneur to retiree.

There may be other such special cases, evident to insiders, in which the residence decisions of some identifiable sub-group of taxpayers are disproportionately effected by the tax system. It may prove possible to craft special provisions to eliminate or soften unwarranted incentives to forsake or avoid Maine residence. In each such case, however, it is important to recognize the costs of tax-code complexity, and balance them against the benefits of more appropriate treatment for exceptional sub-groups. Each increment of complexity in the tax system tends to impose new administrative burdens on government and citizens alike; open avenues (often unanticipated) for abuse; and introduce new risks for real or perceived unfairness.

As the budget permits, it may also be worth considering more liberal tax treatment for retirement income in general. As noted, Maine is less generous than most other states in its taxation of public and private pension income, and (as the Appendix shows) many states have been targeting recent tax reductions on retirees and older citizens. While there is little reason to expect major surges in resident retirees as a consequence, there may well be modest effects in this direction induced by partial exclusions of pension income or age-based income tax preferences. There may also be other justifications (aside from the hope of influencing location choices) for putting some priority on older citizens if and when Maine considers major tax cuts.

There may be good reasons for Mainers to revisit the form of their tax system and the distribution of its burdens across different groups—young and old, working and retired, individuals and corporations, residents and non-residents, property-owners and consumers. The currently benign fiscal environment may offer citizens and their representatives an opportunity to reflect on whether the *status quo* in tax policy faithfully embodies Maine's values. Such reflection may or may not inspire changes that move Maine closer to the pattern other states have chosen, or to contemporary trends in tax reduction. But we suggest that only for exceptional and narrowly defined cases should such changes be enacted with the expectation of exerting much leverage over location decisions.

APPENDIX

State Income Tax Reductions Enacted 1995 through 1998

This Appendix summarizes all major income tax reductions—defined as those with bringing about a net decline in taxpayer liability of \$50 million or greater—enacted by state legislatures each year from 1995 through 1998. This period represents four sequential years of net state tax reductions, following nine years of net state tax increases. In addition to listing the *largest* income tax reductions, the appendix also includes *any* 1995-98 income tax reductions specifically targeted to (or disproportionately affecting) retirees or older taxpayers. (These entries are shaded.)

Source: National Conference of State Legislatures, Denver and Washington D.C., *State Tax Actions*, annual issues

Tax Reductions Enacted in the 1995 Legislative Session

State	Tax Reduction Summary	Estimated Revenue Reduction (in \$million) by fiscal year(s)
Arizona	Adopted family tax credit (\$30 per exemption up to \$120 per family); increased the standard deduction (from \$3500 to \$3600 single and \$7000 to \$7200 joint) and cut rates as follows: 3.25 cut to 3.00; 4.0 cut to 3.5; 5.05 cut to 4.2; 6.4 cut to 5.2; and 6.9 cut to 5.6.	\$200 '96
California	Allowed temporary individual rate increase to expire, with rates falling from 11% (for incomes over \$200K) and 10% (for incomes over \$100K) to a combined top rate of 9.3%	\$255 '96 \$643 '97

Connecticut	Created new 3% rate for first \$4,500 single/\$7,000 head of household/\$9,000 joint in taxable income.	\$6 '96 \$100 '97
	Adopted credit for up to \$400 in local property taxes paid	\$100 '97
Delaware	Reduced tax rates as follows: from 6.6% to 6.35% on taxable income between \$20K and \$25K; from 7 to 6.65% between \$25K and \$30K; from 7.6 to 7.1% between \$30K and \$40K; and from 7.7% to 7.1% for taxable income over \$40K	\$11.3 '96
Iowa	Adopted pension exclusion of \$3,000 for single filers, \$6,000 for joint filers	\$22 '96
	Adopted 100% deduction for health insurance costs	
Kentucky	Adopted four-year phase-in of exclusion for private pensions and IRAs; CY '95, 25% exclusion capped at \$6,250; CY '96, 50% capped at \$12,500; CY '97, 75% capped at \$18,750; CY '98 and thereafter, 100% capped at \$35K	\$9 '95 \$27.1 '96
Michigan	Increased personal exemption from \$2,100 to \$2,400 in CY'95 and CY '96 and to \$2,500 in CY'97	\$69 '95 \$91 '96
New Jersey	Adopted an additional 3% to 15% reduction in marginal tax rates; rate reductions range from low bracket reduction from 1.7% to 1.4% to highest bracket reduction from 6.58% to 6.37%	\$259 '96 \$600 '97

North Carolina	Increased the personal exemption from \$2K in '94 to \$2,250 in '95 and \$2,500 in '96 and beyond; adopted a \$60 per dependent child credit for taxpayers with incomes below \$100K (joint return)	\$235 '96 \$244.1 '97
Ohio	Increased personal and dependent exemptions as follows: taxpayer and spouse--from \$650 to \$750 in tax year '96 and \$850 in '97; dependents—from \$650 to \$850 in '96 and \$1,050 in '97	\$0 '96 \$69 '97
Virginia	Modified the age deduction: old deduction was \$14,933 minus Social Security income for taxpayers 65 and over and \$7,466 minus S.S. income for taxpayers 62-64; new deduction is \$10K (65 and over) and \$5K (62-64) in CY'95 and \$12K (65 and over) and \$6K (62-64) in CY'96 and thereafter (1994 special session)	\$8.5 '95 \$26.2 '96

<i>Tax Reductions Enacted in the 1996 Legislative Session</i>		
State	Tax Reduction Summary	Estimated Revenue Reduction
Massachusetts	Increased standard deduction from \$2,200 per person to \$2,860	\$150 '97
Michigan	Increased interest and dividend exemption for senior citizens as follows: for single returns, from \$1K to \$3.5K in '97 and \$7.5K in '98; for joint returns, from \$2K to \$7K in '97 and \$15K in '98	\$18 '97
New Jersey	Adopted deduction for property taxes paid (or rent equivalent) of up to \$10K and adopted tax credit for persons with little or no tax liability (phased in over 3 years)	\$100 '97
New York	Continued multiyear reduction; top rate falls from 7.5% to 7.0% on 1/97 and standard deduction increases from \$6,6K to \$7.4K/single, from \$8,150 to \$10K/head of household and from \$10,8K to \$12,380/joint ('95 legislation)	\$1,700 '97
North Carolina	Allowed nonrefundable income tax credit for tax paid on federal pensions in the '85-'88 tax years	\$35.5 '97
Ohio	Provided a 6% to 6.5% (contingent on revenues) across-the-board reduction in rates.	\$375 '97
Oklahoma	Adopted a \$5.5K private pension exclusion, phased in over 5 years	\$1.7 '97

<i>Tax Reductions Enacted in the 1997 Legislative Session</i>		
State	Tax Reduction Summary	Estimated Revenue Reduction
Arizona	Reduced single rates from 3.0% to 2.9% of incomes \$0 to \$10K; from \$300 plus 3.5% to \$290 plus 3.3% on incomes \$10,001 to \$25K; from \$825 plus 4.2% to \$785 plus 3.9% on incomes \$25,001 to \$50K; from \$1875 plus 5.2% to \$1760 plus 4.8% on incomes \$50,001 to \$150K; from \$7075 plus 5.6% to \$6560 plus 5.17% on incomes over \$150K. Reduced single head of household and married joint rates from 3% to 2.9% for incomes \$0 to \$20K; from \$600 plus 3.5% to \$580 plus 3.3% for incomes \$20,001 to \$50K; from \$1650 plus 4.2% to \$1570 plus 3.9% for incomes \$50,001 to \$100K; from \$3750 plus 5.2% to \$3520 plus 4.8% for incomes \$100,001 to \$300K; and from \$14150 plus 5.6% to \$13120 plus 5.17% for incomes over \$300K	\$110.8 '98
Connecticut	Exempted one half of 50% of Social Security income	\$1.0 '98 \$10.0 '99
Delaware	Liberalized the definition of income qualifying for the \$3,000 pension income exclusion for ages 60+	\$2.0 '98
Iowa	Reduced marginal rates 10% across the board; formerly ranged from 0.4% to 9.99%; now 0.36% to 8.98%	\$103.0 '98 \$200.0 '99

Maine	Repealed the revenue cap as of 7/97; increased the personal exemption from \$2,100 to \$2,150 and removed low-income filers from rolls as of 1/97	\$43.8 net increase '98
Massachusetts	Adopted a temporary increase in personal exemption to return \$84 million to taxpayers; one-time impact	\$84.0 '98
Missouri	Began phase-in of a deduction for private-source retirement benefits	\$2.0 '98
Nebraska	Reduced rates for TY '97 and TY '98 as follows: from 2.62% to 2.51%; 3.65% to 3.49%; 5.24% to 5.01%; and 6.99% to 6.68%. Increased personal exemption credit by \$10.	\$82.7 '98
North Dakota	Provided a credit of up to \$4K for in-home care to avoid nursing home confinement	No estimate '98
Ohio	Authorized tax preferences for medical savings accounts	\$3.3 '98
Ohio	Made permanent across the board rate reductions as a result of general fund surpluses.	\$256.2 '98
South Carolina	Increased the maximum deduction to \$11,500 for people 65 and older	\$2.7 '98
Wisconsin	Conformed to federal IRC by (1) excluding from income amounts received under long-term care insurance contracts, and (2) adopting medical savings accounts provisions	\$6.1 '98

<i>Tax Reductions Enacted in the 1998 Legislative Session</i>		
State	Tax Reduction Summary	Estimated Revenue Reduction
Arizona	Raised the minimum personal income tax threshold and reduced tax rates across the board, averaging 2.5 percent over two years.	\$30 '99 \$50 '00
California	Adopted a personal income tax renter credit of \$120 for joint filers whose incomes are less than \$50K and \$60 for single filers whose incomes are less than \$25K Increased the personal income tax dependent credit from \$120 to \$253 in 1998 and from \$222 to \$227 in 1999	\$133 '99 \$141 '00 \$612 '99 \$22 '00
Connecticut	Increased the levels of taxable income subject to the 3% tax rate from \$15K to \$20K for joint filers; from \$12K to \$16K for heads of households; and from \$7.5K to \$10K for single filers. Withholding tables will be adjusted beginning July 1998 so that the revenue loss occurs in FY 1999.	\$75 '99 \$92 '00
Delaware	Increased the pension income exclusion from \$3K to \$5K for those age 60 and older	\$0 '99 \$5.1 '00

Delaware	Increased the standard deduction for single taxpayers from \$1,300 to \$3,250 and for married filing singly from \$800 to \$2K Reduced personal income tax rates from: 3.1% to 2.6% on incomes from \$2K to \$5K; from 4.85% to 4.3% on incomes from \$5K to \$10K; from 5.8% to 5.2% on incomes from \$10K to \$20K; from 6.15% to 5.6% on incomes from \$20K to \$25K; from 6.45% to 5.95% on incomes from \$25K to \$30K; and from 6.9% to 5.95% on incomes from \$30K to \$60K and on incomes over \$60K	\$8 '99 \$17 '00 \$37.9 '99 \$96.8 '00
Georgia	Increased the retirement exclusion from \$12K to \$31K	\$8.6 '99
Georgia	Increased the personal exemption from \$1,500 to \$2,700; increased the dependent exemption from \$2,500 to \$2,700; and increased the deduction for those age 65-plus and for blind people from \$700 to \$1,300.	\$205 '99 \$209 '00
Hawaii	Reduced personal income tax rate from 10% to 8.757%	\$80 '99 \$159 '00

Illinois	Began phasing in an increase in the personal income tax exemption from \$1K to \$2K: exemption will increase to \$1,300 in TY 1998; to \$1,650 in TY 1999 and to \$2K in TY 2000.	\$96 '99
Iowa	Adopted a capital gains exemption for business sales. Increased the pension income exclusion.	\$18 '99 \$18.5 '00 \$20 '99 \$18 '00
Massachusetts	Adopted a permanent increase in the personal exemption. Adopted a temporary increase in the personal exemption to expire Jan. 1, 1999. Lowered the rate on interest and dividends from 12% to 5.95%.	\$320 '99 \$440 '00 \$200 '99 \$177 '99 \$238 '00
Missouri	Increased the senior citizen/disabled veteran property tax credit. Increased to \$1K the deduction for dependents older than age 66.	\$21 '99 \$21 '00 \$3 '99 \$30 '00

Nebraska	Adopted permanently the 5% temporary rate reductions passed in 1997; increased the personal exemption credit by \$10; and made self-employed health insurance premiums fully deductible. Also increased the refundable child care credit for adjusted gross income below \$22K.	\$27.6 '99 \$75.2 '00
New Jersey	Excluded military and survivor pensions from personal income tax.	\$5.3 '99 \$5.5 '00
North Carolina	Adopted a temporary credit of 15% of long-term care insurance premiums, with a maximum of \$350 per policy, to expire in 2004.	\$0 '99 \$8 '00
Pennsylvania	Excluded from personal income gains on the sale of a principal residence. Increased the "poverty" exemption.	\$30 '99 \$31.5 '00 \$57.1 '99 \$49 '00
Wisconsin	Reduced personal income tax rates by 1.5%: from 4.85% to 4.77%; from 6.48% to 6.37%; from 6.87% to 6.77%.	\$83.4 '99 \$83.4 '00
Maine <i>(This information was not included in the NCSL tax data, but the omission was corrected for us by Michael Allen of Maine Revenue Services.)</i>	Additional increases in personal exemption and introduction of homestead exemption	around \$35 million in both '98 and '99

APPENDIX D

Observations on Preserving Local Culture

Maine has more to offer than geographic appeal and a network of amenities and support services for its citizens. People are attracted to its cities and towns as much for the sense of community as for any other reason. Social and artistic amenities, health services, transportation, etc. are major elements that contribute to the sense of community, but not the most important. People look above all else for a sense of belonging. That sense comes from the people who become your friends and neighbors.

Our state is largely comprised of small towns where a relatively small influx of population can have substantial impact on the sense of community. there are often native populations which have a traditional orientation towards a specific lifestyle and livelihood, as in the case of fishing towns. There may exist a social fabric where the history of relationships is important on an every day level. Let us make potential citizens aware of the vary special character of the small towns and the benefits of becoming a part of it. If we are successful, we will achieve our economic goals while strengthening the social fabric. They, as part of the community, will help build its future.

The essence of our efforts is prosperity through growth. Most larger cities and towns have grappled with growth management in a realistic sense, most small towns have not. Our program must also educate the local populations and their governments about the opportunity and respect their informed judgment as to benefits and how they are achieved.

Our goal is to create a situation where an influx of retired people with money to spend in the local area will improve the economy for the people living there and enrich the sense of community rather than divide it. The type of person who will help achieve these ends will be attracted to our state by a program of education which emphasizes that unity. Maine does not want to attract people to retirement communities, but rather attract retired people to its local communities.

APPENDIX E

Institutes for Learning in Retirement

College towns have proved to be attractive to the kind of retiree Maine has been seeking, but college towns that have Institutes for Learning in Retirement in place are especially attractive.

At present there are over 300 Institutes in colleges and universities in the U.S., none of them in Maine. The number of members in each Institute ranges from 40 to 800, but the average is about 220, which means that over 50,000 Third Ages are currently affiliated with post secondary education through this vehicle.

Despite great diversity in affiliation, governance, participation, demographics, and even philosophy, the Institutes' similarities are sufficient to link them in a common cause. In fact, the majority of them have been administratively linked since 1987 to Elderhostel's Institute Network which serves as a coordinating mechanism, publishes a newsletter, and holds workshops across the country to help new Institutes get started.

Typically, the host college or university provides space and a varying degree of administrative guidance. The Institutes are usually self-governing, making their own decisions about program guidelines, courses, dues and fees. Some are so close to financial independence through membership dues and course fees that they get no direct financial support at all from the host college, though they usually have access to an office, classroom space, phones, and copying facilities.

The distinguishing thing about Institute courses is that they are largely peer-designed and peer-led. Institute members tend to be highly educated (52.5 percent hold graduate or professional degrees) and many of them have previously taught. On occasion, college faculty may be asked to give a lecture or course, and in some cases graduate students have been invited to talk about their research projects or run a similar one on a topic growing out of their research, but these are not the norm.

At very little expense to the college or university, Institutes bring diversity to the campus and serve as models of lifelong learning for younger students. They also create a cadre of loyal supporters for the host institution, which loyalty is expressed as generosity at fundraising time as well as volunteers for jobs that stretch the college's ability to staff offices and keep libraries and museums open longer hours. On some campuses, professors have even found qualified elder learners willing to read student papers, grade exams, and lend a hand with research projects.

APPENDIX F

Funding Mechanisms for the Arts

There is always a great need for funding to support the Arts, but if they are the attraction that we have identified for new residents, it is incumbent on us to sustain and nurture their survival and growth. A study should be made of the ways other states are finding to finance the Arts. Some methods commonly used are:

1. Hotel/motel tax: traditionally split between visitors and Convention Bureaus, Chambers of Commerce and the Arts.
2. Dedicated use taxes: levied on video rentals, for example, could be dedicated to the Arts, supporting promotion and infrastructure.
3. Improvement taxes: new building and industry gives a percentage to the Arts.
4. Southern Maine Art Zone with tolls benefiting Maine Arts
5. Corporate filing fees: successful in Florida
6. Percentage of lottery receipts.
7. Percentage of natural growth on existing taxes.
8. Any and all other ideas that may raise an endowment fund for the Arts in Maine.

APPENDIX G

Volunteerism Agencies

RSVP

RSVP (Retired Senior Volunteer Program) provides meaningful volunteer opportunities for adults, primarily in community activities or nonprofit organizations. Volunteers include homemakers, retired executives, academic and office workers, and persons with physical or mental disabilities. They fill a wide variety of positions including museum guides, computer consultants, tutors, library and hospital aides, drivers, researchers, supplementary teachers, and mentors for young people. Each volunteer is interviewed to determine his or her qualifications and skills, placed in an appropriate position, and followed up to make sure both the agency and the volunteer are satisfied.

There are 5 RSVP units in Maine. About half of their funding comes from the Federal government under the Corporation for national service; the balance is provided by state and country governments, private donations and fundraising.

The chapter in Cumberland and York counties has 700 volunteers doing 70,000 hours of volunteer work each year with 125 agencies.

SCORE

SCORE (Service Corps of Retired Executives) provides opportunities for retired business executives to assist small businesses in the start up phase or with operational problems. The volunteers act as counselors to particular clients and teach workshops on subjects of broader interest. They come from a range of business backgrounds, ranging from large manufactures to small retailers, and include both top level executives and specialists in accounting or marketing. Each volunteer is interviewed to determine his or her expertise and experience before assignment.

There are 8 SCORE chapters in Maine with 215 members. Last year they conducted 1700 free client counseling sessions and taught 2,250 in workshops. About one quarter of Maine SCORE's funding comes from the United States Small Business Administration (SBA); the balance is provided by modes charges for workshops, private donations and fundraising events.

Nationally, the SCORE program has 400 Chapters, 13,000 members and made one quarter of a million contacts last year.

REACH OUT ALLIANCE

The Maine Volunteer Connection, Inc., recently announced the formation of the Reach Out Maine Alliance to assist Maine communities in addressing their problems through voluntary and community services. In addition to MVC, the Alliance is composed of Maine Independent Living Services (MILS), Intersect International, Inc. (III), and the Maine Chamber and Business Alliance. Each member of the Alliance has assumed a specific responsibility as follows:

- MILS is establishing a statewide database of resource information, volunteer opportunities, volunteer based nonprofits, and other resources.
- III is establishing a technical services and training institute for individuals, agencies, organizations and businesses in Maine to help them better serve their constituencies. It is also developing a bank of consultants to assist community agencies.
- The Maine Chamber and Business Alliance is establishing a statewide corporate volunteer council to assist Maine corporations and businesses in encouraging employee volunteerism.
- MVC will coordinate the program and will provide expertise in the preparation of programs and projects called for by communities and agencies.

APPENDIX H

People in the 50+ Market:

- have 77% of the nation's personal finances
- have 80% of the money in savings accounts
- have 68% of all money market accounts
- have 50% of all corporate stocks
- buy 48% of all new domestic cars
- own their own houses in 77% of the cases
- Own houses worth 20% more than the U.S. Average
- Have median family income of over \$33,000
- Have incomes mostly unaffected by national economic trends

Source: Dr. Mark Fagan, retirement consultant and professor, Department of Sociology and Social Work, Jacksonville State University, Jacksonville, Alabama

APPENDIX I

Key Factors in Choosing a Retirement Community

(in order of importance to subscribers)

1. Low crime rate
2. Good hospitals nearby
3. Mild climate
4. Low cost of living
5. Low overall tax rate
6. Low housing cost
7. Friendly, like-minded neighbors
8. Major city nearby
9. No state income tax
10. Good recreational facilities
11. Active social/cultural environment
12. Airport with commercial service nearby
13. Continuing-care retirement communities available
14. Friends, relatives in the area
15. College town with adult education available

Source: R. Alan Fox, President, Vacation Publications, and Publisher, "Where to Retire"
magazine, Houston, Texas

Appendix J

Annual Migration Projections: Age 65 and older

Rank: 1998	State	1998	2000	2005	2010	2020
1	Florida	27,653	27,123	26,055	27,589	42,612
2	California	10,504	10,877	12,393	14,788	22,433
3	Arizona	9,279	9,313	9,551	10,546	15,280
4	Nevada	5,077	5,140	5,366	5,913	8,304
5	North Carolina	4,310	4,269	4,256	4,544	6,767
6	Washington	3,890	3,912	4,026	4,323	5,595
7	Oregon	3,148	3,162	3,240	3,494	4,612
8	Virginia	1,985	1,935	1,851	1,843	2,662
9	Maryland	1,250	1,220	1,148	1,087	1,369
10	Colorado	957	1,012	1,197	1,349	1,567
11	Utah	832	852	921	1,033	1,416
12	Hawaii	794	833	949	1,110	1,651
13	South Carolina	769	676	480	411	1,052
14	New Hampshire	683	691	720	776	1,000
15	New Mexico	614	627	689	800	1,149
16	Delaware	537	533	530	566	835
17	Texas	518	679	1,303	1,908	2,990
18	Idaho	440	457	506	557	687
19	Maine	344	341	336	345	425
20	Tennessee	249	246	240	215	282
21	Montana	105	112	138	175	282
22	Alaska	102	107	120	113	79
23	Minnesota	48	72	118	86	(207)
24	Vermont	24	29	44	55	75
25	South Dakota	0	17	71	111	150
26	Wisconsin	(135)	(124)	(108)	(147)	(441)
27	North Dakota	(139)	(134)	(123)	(126)	(199)
28	Nebraska	(158)	(144)	(104)	(87)	(118)
29	Wyoming	(366)	(362)	(359)	(403)	(640)
30	Kansas	(384)	(367)	(329)	(363)	(619)
31	Missouri	(418)	(437)	(501)	(605)	(819)
32	Rhode Island	(446)	(460)	(498)	(532)	(557)
33	Alabama	(529)	(558)	(627)	(722)	(849)
34	Iowa	(831)	(832)	(853)	(937)	(1,326)
35	Arkansas	(844)	(847)	(854)	(895)	(991)
36	Mississippi	(922)	(943)	(1,013)	(1,090)	(1,312)
37	Dist. of Columbia	(945)	(929)	(951)	(1,050)	(1,428)
38	Oklahoma	(1,048)	(1,066)	(1,118)	(1,265)	(1,800)
39	Kentucky	(1,092)	(1,110)	(1,174)	(1,306)	(1,722)
40	Indiana	(1,508)	(1,534)	(1,635)	(1,866)	(2,625)
41	Connecticut	(1,744)	(1,717)	(1,715)	(1,914)	(2,766)
42	Michigan	(2,093)	(2,112)	(2,217)	(2,565)	(3,698)
43	Georgia	(2,100)	(1,608)	(327)	(529)	24
44	West Virginia	(2,366)	(2,353)	(2,355)	(2,432)	(2,937)
45	Massachusetts	(2,412)	(2,466)	(2,643)	(3,002)	(4,324)
46	New Jersey	(3,162)	(3,034)	(2,785)	(2,873)	(3,718)
47	Louisiana	(3,165)	(3,232)	(3,429)	(3,746)	(4,845)
48	Ohio	(3,662)	(3,736)	(3,996)	(4,422)	(5,714)
49	Pennsylvania	(4,048)	(4,200)	(4,543)	(4,839)	(5,119)
50	Illinois	(8,149)	(8,103)	(8,194)	(8,866)	(11,865)
51	New York	(21,151)	(20,942)	(20,943)	(22,462)	(29,997)

Data Source: AARP (American Association of Retired Persons)

