

Area Agency on Aging 1-B FY 2011-2012 State Budget Analysis

On February 17, 2011, Michigan Governor Rick Snyder presented his FY 2011-2012 budget proposal to the state legislature. The governor's \$46 billion budget includes significant spending reductions and structural changes which are designed to close the projected \$1.4 billion deficit, finance a \$1.8 billion tax cut for businesses, and address Michigan's chronic structural budget deficit with significant revenue and spending reforms that will improve the state's long-term fiscal stability. The proposed budget represents the Governor's follow-through on campaign promises, and is intended to put Michigan in a fiscally sound condition, place Michigan in a more competitive position to foster economic growth, and accomplish these goals through a strategy that features a fair sharing of the short term sacrifices needed to achieve long term prosperity.

The purpose of this analysis is to summarize the budget proposal and its impact on programs and policies directly affecting older adults, consider some economic consequences directly affecting older individuals and the state, discuss alternative revenue enhancement strategies that could be adopted in place of some of the Governor's more problematic policy proposals, and identify factors that must be considered when assessing the fairness of the proposed budget.

I. GOVERNOR'S PROPOSED FY 2012 BUDGET SUMMARY

Governor Snyder's proposed FY 2012 budget addresses a projected \$1.4 billion shortfall caused by a structural imbalance. Key factors contributing to this imbalance are:

- \$900 million in temporary federal funding in FY 2011 from American Recovery and Reinvestment Act stimulus funding
- \$193 million needed to pay for anticipated public benefit caseload increases
- \$98 million in increased debt payments
- \$105 million in increased employee costs

The proposed budget solution features three main elements:

- A net business tax cut of \$1.7 billion
- A net income tax increase of \$1.9 billion (full amount not achieved until FY 2013)
- \$1.8 billion in savings achieved through spending cuts

The Citizens Research Council analysis of the proposed budget concludes:

- *"FY 2012 budget is balanced without using one-time revenues or other budget gimmicks"*

- *Combination of tax reform, spending reductions, and funding shifts used to achieve structural balance*
- *Business tax would be simpler and dramatically lower; economic development incentives moved from tax expenditures to appropriations process*
- *Income tax would also be simpler with removal of senior tax preferences, refundable credits, and Earned Income Tax Credit*
- *Individual income tax increase is significant. Revenues from tax increase used to restructure business tax as opposed to mitigating budget cuts.”*

Key provisions of the savings/spending cuts:

- \$659 million from state programs and services, primarily universities
 - Includes a \$2.2 million cut (9%) for the Office of Services to the Aging
- \$144 million from revenue sharing
- \$180 million from public employee concessions
- \$340 million from business income tax reforms, primarily credit reductions
- \$502 million from shifting costs from General Fund to School Aid Fund

BUDGET PROVISIONS DIRECTLY AFFECTING OLDER ADULTS

A review of the budget proposal finds the following items that pertain to older adults:

PERSONAL INCOME TAX

- The state income tax rate would be lowered and set at a fixed 4.25%; the current 4.35% rate is scheduled to decline annually until it reaches 3.9%.
- The personal income tax exemption would be retained, but phased out for persons with income in excess of \$75,000 for an individual and \$150,000 for joint filers.
- The special exemption for individuals age 65+ of \$2,300 would be eliminated (special exemptions for disabled individuals, disabled veterans, and military personnel would be retained).
- Public and private pension income would be taxed at 4.25%. Currently, public pensions are tax exempt. Private pensions are tax exempt for the first \$45,120 for an individual, \$90,240 for joint filers.
- Social Security benefits would continue to be exempt from state income tax.
- The refundable Earned Income Tax Credit would be eliminated.
- The refundable Homestead Property Tax Credit would be retained, but the income eligibility range would be lowered from \$70,000 to \$61,000. The Property Tax Credit would equal 80% of the difference between property taxes and 3.5% of income for most homeowners. Currently, the tax credit for individuals 65+ is 100% of the difference, and for individuals under age 65, 60% of the difference. The credit calculation varies among homeowners, renters, and residents of nursing homes, adult foster care homes or homes for the aged.
- Certain dividends and interest for individuals age 65+, would no longer be subtracted from Adjusted Gross Income and would be taxable.

- Many other tax credits would be repealed, including city income tax credits, political contributions, and gifts to colleges, museums, community foundations, homeless shelters and food banks.

FUNDING FOR AGING AND DISABILITY PROGRAMS

- Services provided through the Office of Services to the Aging would face a 9% cut totaling approximately \$2.2 million:
 - Community Services (\$1,025,500)
 - Nutrition (\$791,000)
 - Foster Grandparents (\$201,000)
 - RSVP (\$56,400)
 - Senior Companion (\$144,400)

- The Medicaid *MI Choice* Waiver program would be essentially flat-funded at \$205,940,500.
- The Medicaid *Home Help* program would be cut \$15 million (5%).
- Medicaid-funded nursing homes would see a \$35 million (2%) increase.

OTHER

- Older adults and persons with disabilities eligible for both Medicare and Medicaid will be integrated into a managed care service delivery model saving \$30 million (\$10 million general fund) in fiscal year 2012.
- The Michigan Quality Community Care Council, which runs a home help worker registry, does background checks, training, and other supports for the Home Help program would be eliminated, saving \$1 million.

II. IMPACT OF GOVERNOR'S FY 2012 BUDGET PROPOSAL ON OLDER ADULTS

Governor Snyder has proposed a budget intended to simplify the individual and corporate tax structure, lower the tax burden for corporations, and generate revenues that will address this fiscal year's anticipated budget deficit and begin to shore up funds to cover future retirement benefit obligations of state employees. Calling his budget simple, fair and efficient, the Governor believes his budget creates a "level playing field that's fair and consistent" with no special treatment based on age. Currently, Michigan is one of the more retiree-friendly states in the nation in terms of taxes. It is estimated that 95% of older Michigianians 65+ pay no state income tax. Michigan is one of 36 states that does not tax either part or all of Social Security benefits.

The Area Agency on Aging 1-B calculated the impact of key tax changes for 2012 on a range of older adult households, including renters and homeowners at varying income levels and with income from various sources. This analysis is summarized below and is included in the appendix of this report.

Impact of Proposed Private Pension Taxation			
Income	Income Tax 2011	Income Tax 2012	2012 Income Tax as % of Total Income
\$10,890 (\$8,000 SS + \$2,890 pension)	\$0	\$0	0.0%
\$24,262 (\$15,156 SS + \$9,106 pension)	\$0	\$ 230	0.9%
\$31,354 (\$13,976 SS + \$17,378 pension)	\$0	\$ 581	1.9%
\$60,000 (\$24,952 SS + \$35,048 pension)	\$0	\$ 1,332	2.2%
\$80,000 (\$24,952 SS + \$55,048 pension)	\$ 171	\$ 2,182	2.7%
\$100,000 (\$35,928 SS + \$64,072 pension)	\$ 563	\$ 2,566	2.6%
\$200,000 (\$35,928 SS + \$164,072 pension)	\$ 4,913	\$ 6,816	3.4%
SS: Social Security			

The amount of income tax paid as a percent of total income would remain higher for higher income households. Public pensioners, while not reflected in this table, would see their total income tax rise at a greater percentage than private pensioners because prior to 2012, private pensions were already partially taxed.

In addition, it appears that among age 65+ households with taxable income, all but the lowest income households will see their income tax bills increase if the proposed income tax changes are enacted. Low income households which rely exclusively on Social Security income pay no state income tax in 2011 and will not pay state income tax in 2012.

The elimination of the special senior personal exemption increases the tax liability by \$2,300 per individual, \$6,400 per couple. This impacts lowest income households at a greater proportion than higher income households. Comparing estimated 2012 income tax with and without the senior exemption finds the value of the exemption to be \$98 regardless of the household income level.

HOMESTEAD PROPERTY TAX

Governor Snyder's proposal removes age as a factor in determining homestead property tax liability and individual's Homestead Property Tax Credit. Analysis of the proposed homestead property tax changes is complicated by the fact that individual property values vary, as do property tax rates among cities and townships. To get a representative sample of property values within the Region 1-B service area, six different cities and property values were chosen for comparison and analysis. Renters also receive a partial homestead property tax credit, based on their monthly rent.

Homestead Property Tax Credit by Income Level				
	Property Tax 2011	Property Tax Credit 2011	Property Tax Credit 2012	Change in Property Tax Credit
\$10,890 (\$8,000 SS + \$2,890 pension)	\$1,065	\$684	\$547	-\$137
\$24,262 (\$15,156 SS + \$9106 pension)	\$2,282	\$1,200	\$1,146	-\$54
\$31,354 (\$13,976 SS + \$17,378 pension)	\$1,734	\$637	\$509	-\$127
\$60,000 (\$24,952 SS + \$35,048 pension)	\$3,668	\$1,200	\$1,200	\$0
\$80,000 (\$24,952 SS + \$55,048 pension)	\$4,418	\$1,200	\$0	-\$1,200
\$100,000 (\$35,928 SS + \$64,072 pension)	\$4,379	\$0	\$0	\$0
\$200,000 (\$35,928 SS + \$164,072 pension)	\$5,600	\$0	\$0	\$0
SS: Social Security				

The net result of the Homestead Property Tax Credit changes is that low income households will pay more tax as a share of their income than higher income households.

Eligible homestead property tax credits will be reduced by 20% for most adults age 65+ with low to moderate incomes. Mid-high income households with incomes so high that their property tax credits are capped at \$1,200 would see no change in their credit. Households with incomes between \$70,000 and \$80,000 who previously received a tax credit would no longer be eligible.

EARNED INCOME TAX CREDIT (EITC)

This refundable tax credit would be eliminated with implementation of the budget proposal. For adults age 65 and older, this credit is allowable only if there is at least one qualifying dependent (a child or dependent adult child) and earned income, (maximum of \$35,535 with one child). The Michigan EITC is 20% of the federal EITC. For example, an older adult who earns \$8,000 and has a dependent adult child qualifies for approximately \$54 in Michigan's EITC. For an older adult in this scenario who earns \$35,000, the Michigan EITC would be \$16. Even with the maximum benefit, the EITC offers little financial gain to the older adults who receive it. The EITC is more important to the many low wage workers who deliver essential long term care services to older and disabled adults. The EITC saves the typical worker with children hundreds of dollars annually.

PROPOSED TAX CHANGES NOT ANALYZED

The Governor has proposed the elimination of deductions for certain savings interest, dividends and capital gains for older adults. There is no direct correlation between these deductions and household income level. Over half of older Americans receive income from such assets, averaging \$6,697 in 2008. Half of those who had income from assets in 2008 received less than \$1,054. Another important consideration that is overlooked in this debate is how inflation erodes fixed pensions. An annual fixed pension of \$10,000 in 2011 will have

the purchasing power of \$6,145 for a 65 year old male pensioner who reaches the average life expectancy of age 83.

III. Impact of Governor's FY 2012 Budget Proposal on Older Adult Programs and Other State Services

Funding for key services to Michigan's older adults through the Michigan Office of Services to the Aging (OSA), was cut approximately \$2.2 million (9%) in the FY 2012 state budget proposal. Statewide, there are more than 6,000 seniors on waiting lists for OSA services like meals and home care. In Region 1-B, this cut represents a loss of more than a half million dollars, at a time when current resources cannot meet the growing demand for services. Over 2,600 older adults are currently waiting for OSA-supported assistance in Region 1-B.

Since 2009, programs funded by OSA have been cut by \$10 million, a 28% decrease. Continuing to defund these services threatens the health and safety of vulnerable seniors, fails to take advantage of the opportunity to leverage federal and local funds, and cuts the role of older volunteers in delivering state supported services.

NUTRITION

In the proposed FY 2012 budget, approximately \$800,000 would be cut from home delivered meal (HDM) service. With this cut, it's possible that 280,000 fewer meals will be served statewide, including 74,000 fewer meals in Region 1-B. With the proposed cuts, the wait list for home delivered meals would grow by 500 seniors. If the number of meals being cut with this proposal were piled on top of each other, the containers would create a tower that is higher than a tower of 14 Empire State Buildings stacked end on end.

President Obama's federal budget proposal for FY 2012 calls for flat funding of federal OAA nutrition programs, making the state's investment in senior nutrition even more necessary. According to national Association of Nutrition and Aging Service Programs, the combination of flat funding at the federal level and lowered state and local funding would result in 36 million fewer meals provided to needy consumers throughout the nation.

COMMUNITY SUPPORTS

Home- and community-based services such as in-home supports, caregiver assistance, and care management services are scheduled to receive a cut of over \$1 million. The Community Living Program (CLP) has achieved tangible benefits for consumers in Region 1-B as it empowers families to use personal and financial resources wisely, and explore alternative long term care options. The CLP is targeted for expansion to other Area Agencies on Aging throughout the state in Governor Snyder's Budget Transitional Performance Measure for OSA; however proposed cuts will impede this expansion.

In 2010, if the aging network's 2,830 most at-risk clients in the community had not gotten help and were forced into nursing homes, Medicaid could have spent \$191 million *more* on nursing home care. In contrast, those clients were served by the aging network at a cost of \$2.4 million.

To address proposed funding cuts and examine the impact on consumers in FY 2011, the AAA 1-B developed a plan to allocate funding cuts to lower priority services. If the budget passes as proposed, the following services could be reduced or eliminated according to this

funding priority: Kinship Support, Elder Abuse, Vision Assistance, Assistance to the Deaf and Hearing Impaired, Long Term Care Ombudsman, Medication Management, Transportation, Home Injury Control, and Legal Assistance. More than 7,400 consumers in Region 1-B would suffer a reduced level of service or loss of service entirely.

The wait list for care management services from Region 1-B is more than 2,000 and will continue to grow if these cuts are implemented.

SENIOR VOLUNTEERS

In 2010, approximately 13,300 older adult volunteers contributed 3.5 million hours of service to 2,625 public and non-profit organizations in Michigan through the R.S.V.P., Foster Grandparent, and Senior Volunteer programs. The economic value of this service is estimated at \$750 million, a return of \$62 for every federal/state dollar expended. With this return, the proposed cut of \$401,800 (8.2%) would remove nearly \$25 million of economic benefit, leave seniors without needed care, and turn away the contributions of older adults who wish to volunteer.

MENTAL HEALTH

The Department of Health and Human Services finds that substance abuse among adults age 60 and older is one of the fastest growing health problems facing the country. The US Surgeon General reports that a substantial proportion of the population 55 and older – almost 20% of this age group – experience specific mental disorders that are not a part of normal aging.

The proposed 3% cut to the state's community mental health programs are targeted for non-Medicaid patients who make up about 10 percent of the mental health population served by the state, and generally are served upon reaching a state of mental health crisis. This cut is much smaller than the \$40 million reduction enacted for FY 2011, however mental health advocates caution that continued cuts to these critical programs will result in more costly hospitalization and increased incarceration. While the cuts would save the state general fund \$8.5 million in 2012, the long term impact on the state's budget could be much higher.

HOME HELP PROGRAM

The Home Help program, which serves 50,000 low-income older adults and adults with disabilities, is designed to give support to adults on Medicaid who are unable to care for themselves adequately at home. At a cost to the state of \$18 per client per day, Home Help provides them the funds to hire helpers to assist with daily activities. The Governor's proposal calls for limiting the services available to those individuals with greater impairments who require critical care like help with eating, dressing and bathing. Independent Activity of Daily Living services such as helping with shopping and meal preparation would be discontinued. Home Help stands to lose about \$15 million (\$6 million general fund), or 5% of its funding. The proposed cut will likely cause 2,500 consumers to lose the assistance of a Home Help worker, assistance that allows them to live in their own homes.

ADULT FOSTER CARE EMPLOYEE BACKGROUND CHECKS

Adult Foster Care facilities and homes for the aged rely on state subsidies for conducting background checks, and the budget proposal calls for discontinuation of the subsidy. It is estimated that \$2.2 million general fund would be saved, but the expense would be passed on to individual facilities.

MEDICAID LONG TERM CARE PROGRAMS

Governor Snyder has recognized the value of Medicaid Long Term Care programs and has allocated \$2.2 billion (\$388.5 million general fund) to fund the long-term care portion of the state's Medicaid program. Michigan currently ranks 44th across the nation in Medicaid dollars spent on long term care per senior age 65+. For every \$1 the state legislature cuts from Medicaid, Michigan patients and providers lose \$3.74 in essential state and federal health care funding.

- NURSING HOMES – are scheduled to receive a 2% increase in Medicaid funding, approximately \$35 million.
- PACE – the Program for All-Inclusive Care for the Elderly is scheduled to see a 30% increase of (\$7 million). This will enable the expansion of this successful health care delivery model.
- MI Choice - The proposed flat FY 2012 MI Choice funding may not be sufficient to support continuation of the successful Nursing Facility Transition program, and provides no hope for those on MI Choice wait lists. The current waiting list for MI Choice enrollment is 6,700 statewide, and 1,433 in Region 1-B. A 2010 study done by Indiana University shows that increased investment in MI Choice makes economic sense: a \$10 million general fund increase in MI Choice would bring an additional \$27 million in federal matching funds, create 1,100 new jobs and return \$1.9 million in tax revenues to the state.

REGISTRY OF HOME HELP WORKERS

The Michigan Quality Community Care Council (MQC3) will be eliminated if the budget proposal is accepted. Created in 2004, the MQC3 supports a registry of Home Help workers, enabling consumers to find qualified, trained providers that meet their needs. The Governor proposes to move the functions of the MQC3 back to the Department of Human Services (DHS) offices located at the county level. The risk of this change is that understaffed, underfunded local DHS offices will be unable to provide the same level of assistance, criminal background screenings, peer mentoring, or training as is done currently with MQC3.

INTEGRATION OF MEDICARE AND MEDICAID

The proposed budget includes an estimated savings of \$30 million (\$10 million general fund) for FY 2012 through the integration of Medicare and Medicaid health care services into a managed care service delivery model for dual-eligible individuals.

HEALTHY MICHIGAN FUND

Michigan's primary health promotion and disease prevention program is scheduled to receive a 10% cut, saving \$1 million in general funds. Remaining in the budget is \$645.1 million (\$75.6 million general fund) invested in health promotion, disease prevention and services to senior citizens and families, including \$37.4 million (\$32.2 million general fund) in grants to local public health departments. Savings of \$1.7 million general fund is achieved from reductions in funding to local public health departments. A 2009 Trust for America's Health report shows that health prevention programs show a return of \$5.60 for every \$1 spent on prevention services. With the proposed cut, Michigan stands to lose a \$5.6 million value in positive health outcomes.

IV. POTENTIAL IMPACT OF GOVERNOR'S FY 2012 BUDGET PROPOSAL ON OLDER ADULT ECONOMIC CONTRIBUTIONS

Most older adults would pay more in state taxes due to the new taxation of pension income and/or the reduced exemptions from paying homestead property taxes. This has caused some speculation that the increased tax burden may cause some older adults to either move from Michigan to escape the increased tax burden, or cause those with multiple residences to declare their non-Michigan residence as their permanent residence for taxation purposes. The extent of potential senior out-migration due to the proposed pension income taxation is unknown. The purpose of this section is to provide data on the potential ramifications of senior out-migration.

In 2009, the median annual income for a Michigan householder age 65+ was \$32,688. The sum total of senior income for the state of Michigan exceeded \$38.1 billion. National studies indicate seniors spend 92% of their monthly income. If Michigan seniors spent in accordance with this pattern in 2009, they pumped \$35 billion into our economy. Retiree income is extremely valuable to our economy because it mostly represents income that is imported into our economy in the form of Social Security, pension benefits, and earnings on investments.

In 2005, the median household net worth for age 65+ households in the U.S. was \$190,000. While the majority of these assets represent home equity, stocks and bonds, including farm and business ownership, a significant amount is also deposited in local banking accounts and certificates of deposit.

A 2007 study conducted by the Council of Michigan Foundations estimated that between 2005 and 2015 approximately \$140 billion in wealth will be transferred from individual estates, with a portion of that wealth captured by endowments for community betterment.

In 2005, people in the 65-74 age bracket gave the most dollars in charitable contributions, with those age 75+ giving the highest portion of their income. Giving in the category of "educational institutions" was highest among those 75+, compared to other age brackets.

Mobility among older Michigianians is significant. A 2010 AAA 1-B analysis found that there are more than 25,000 adults with a second mortgage outside of Michigan, and conservatively estimated that there were at least 130,000 Michigan snowbirds age 65 and older, who reside outside of Michigan for part of the year. Almost 70% of senior second mortgages are in Florida, which does not tax pension income. Creating a negative senior residency environment in Michigan could be a catalyst for further senior out-migration or transfer of residency status to another state for taxation purposes. In addition to the loss of tax income, a 2009 Brookings Metropolitan Policy Program study found that each resident Michigan loses costs the state over \$1,000 in lost revenue from various federal programs that allocate federal funds to states based on their population. Clearly, a negative senior residency environment

could have a negative impact on Michigan's economy and state revenues.

"In all cases the elderly have positive economic and fiscal impacts on the local economy."
Shields, Stallman, and Deller – Journal of the Community Development Society

V. FACTORS AND CONSIDERATIONS ON THE FAIRNESS OF SHARED SACRIFICE IN THE GOVERNOR'S PROPOSED FY 2012 BUDGET

The rationale for Governor Snyder's budget proposal includes the intent to bring greater fairness to state taxation policies that require short term sacrifices in order to achieve longer term prosperity. Thus, the budget proposal must be analyzed in its entirety from a fairness perspective. Among these considerations are:

- Does the budget take a disproportionate amount from seniors?
- Does it require sacrifices in the form of tax increases and service cuts that represent an unmanageable burden for the lowest income older adults?
- Are there other beneficiaries of state funding that are making an equitable sacrifice?
- Can we afford the significant shift of the state tax burden from businesses to individuals?
- Will the cuts in business taxes lead to increased economic activity and jobs?
- If seniors will pay \$900 million more due to the pension tax increase, why can't a portion of that revenue be dedicated to support services for the most needy seniors through the Office of Services to the Aging?

VI. ALTERNATIVES TO PROVISIONS OF THE GOVERNOR'S PROPOSED FY 2012 BUDGET

Governor Snyder proposed a number of bold and controversial changes in the FY 2012 budget. Legislators, in response to concerns from constituents, are in the process of considering other alternative forms of revenue generation and/or service cuts. Senator Richardville has stated that any changes to the governor's budget proposal must be accompanied by a proposal that will have a comparable impact on revenue.

PUBLIC SENTIMENT

A recent Detroit Free Press/WXYZ-TV poll summarized public reaction to the governor's budget proposal:

- Respondents oppose the tax overhaul plan, 49% to 43%
- Respondents oppose taxing pensions, 53% to 41%.
- Respondents favor keeping the Earned Income Tax Credit, 58% to 36%
- Respondents oppose the elimination of tax credits for certain charitable donations, 63% to 32%.
- Respondents favor the proposal to reduce the current 4.35% state tax rate to 4.25% and support keeping it at that rate, 69% to 22%.

When asked for alternatives to the Governor's proposal:

- 41% of respondents favor cutting business taxes by half of the \$1.8 billion cut Governor Snyder proposed, and keeping the credit for the working poor and taxing some portion of pension and retiree income.
- 25% favor keeping business taxes at the current level and avoid changes that increase individual income taxes.
- 17% would reduce taxes by half of the Governor's proposal and keep current exemptions for pensions and other retirement income.

ELIMINATE TAX EXPENDITURES

Among the many alternatives available to the legislature is the elimination of certain tax expenditures. It is estimated that \$35 billion was lost to the state in fiscal year 2009 through these tax loopholes. The Governor has eliminated a number of these tax preferences in his proposal, including several provisions analyzed in this report. However, a number of tax expenditures worth millions to the state are viable options and warrant consideration.

In 2010, the AAA 1-B conducted an online survey of revenue enhancement alternatives as a way to address the state budget deficit. Seventy-seven percent of the survey respondents indicated they would support revenue enhancements. The alternatives favored by a majority of AAA 1-B survey respondents are listed below, with the amount of revenue stated:

- Sales tax on certain services, which with a sales tax decrease to 5.5% has the potential to generate \$1.65 billion.
- Increasing the per-serving beer tax from 2 cents to 4 cents would yield \$42 million per year.
- Replacing the flat rate state income tax with a graduated rate tax could generate \$600 million.
- Repeal of the sales tax exemption on loose tobacco would yield \$17 million.
- The sale of a specialty license plate and adding a check-off donation box on the state income tax form.

- Adding a sales tax to food sold in vending machines would yield up to \$52 million per year.
- Adding a 1 cent tax on bottled water would yield \$30 million per year.
- Taxing international phone calls the same as other long distance calls would yield \$22 million per year.
- A check-off donation box can be added to the state income tax form with revenue directed to aging services. Comparable programs in other states have raised from \$11,000 to \$250,000.
- Specialty license plates can be made available for sale with revenue directed to aging services. Comparable programs have raised \$46,000 to \$447,000.

Interestingly, the alternative with the most opposition among survey respondents is the elimination of the second income tax deduction for older adults (33% opposed).

VII. CONCLUSIONS AND RECOMMENDATIONS

Well over half of the \$1.9 billion in tax increases in Governor Snyder's proposed FY 2012 budget will be taken from adults age 65 and older, a group which represents only 13.4% of Michigan's total population (US Census Bureau projections). Most middle and upper income older adults can afford the proposed tax increases without significantly affecting their lifestyle. However most low and low-middle income older adults will also pay more, and for many it will be more than they can afford without sacrificing essential purchases. The lowering of the property tax credit refund rate will negatively affect most low income older adults, including those living below poverty. Individuals need information and tools available to assess how the budget proposal will affect them personally, as well as the big picture impact on the entire state. Projecting the impact of the pension tax and Homestead Property Tax Credit changes on individuals is very difficult. Therefore the AAA 1-B has advocated that the Governor make available an online tax calculator that will allow individuals to enter income and property tax information into a calculator program that will project their future tax burden under the new proposal.

Older Michigianians have historically been given special protection through federal and state income tax codes in recognition of their limited ability to increase income, and higher personal expenditures on health care costs, which rise significantly faster than inflation. According to the Elder Economic Survey Index, Michigan age 65+ households spend 14% of their total budget on health care, compared with 6% for all other age groups. Property tax rates have also provided special consideration, recognizing that property taxes and maintenance that may be affordable when a homeowner is employed become a greater burden on a lower retirement income. The proposed tax shift will threaten the financial security of many older adults, resulting in a cutback on expenditures for most, and a draining of savings for many others. The lowest income groups will likely have to cut back on essential purchases. The loss of tax provisions that have served to protect the lowest income elderly will be compounded by the cutting of key state-supported services to those who cannot afford to purchase needed services at private market rates.

The greater senior tax burden makes preservation of a social safety net for lower income older adults at risk of losing their ability to live independently crucial. OSA has been cut by 28% since 2009, and the proposed \$2.2 million (9%) cut will harm Michigan's most vulnerable

older adults. The proposed level funding at \$205 million will not assure needed growth of the nursing facility transition program, and prevent individuals on the MI Choice wait list from receiving assistance.

There are many options for revenue enhancement that have been debated publicly, and that would not impose as great a financial burden on Michigan's most financially insecure families and individuals. Most of these alternatives represent special tax breaks for certain industries or groups that give them an economic advantage over other businesses. Many of these less burdensome options have received considerable support and would be favored over some elements of Governor Snyder's budget proposal, as evidenced by the Detroit News and AAA 1-B surveys referenced earlier in this report.

RECOMMENDATIONS

1. The AAA 1-B believes that changes are needed to the Governor's budget proposal that will achieve his key objectives while infusing a higher level of fairness and imposing a less significant tax burden on older adults. Potential changes could include: a) retaining at a minimum a partial income tax exemption for pension income for those with household income below \$30,000*; and b) preserving the 100% rate for calculating the Homestead Property Tax Credit for those with adjusted gross income below \$30,000*. The \$30,000 amount reflects the goal of protecting households below 200% of the federal poverty level and should be adjusted annually to keep pace with inflation and the poverty level as currently defined.
2. The proposed \$2.2 million cut (9%) to essential home and community-based services such as those provided through the Office of Services to the Aging should be rejected. If income taxes must be increased for the elderly, a minimum of 3% - 5% of the new revenue should be dedicated to OSA programs to assure an ongoing safety net for the most vulnerable.
3. Legislators should consider alternative sources of revenue to replace the most objectionable tax increases proposed as part of the Governor's budget. The following are the top five favored options in order of support, based on the 2010 AAA 1-B survey:

Top 5 Revenue Enhancement Options and Potential Revenue

- Double Michigan's beer tax - \$42 million
- End tax exemption to tobacco wholesalers - \$17.7 million
- End sales tax exemption for vending machine foods - \$25 million
- Decrease sales tax to 5.5% and apply to certain goods and services - \$1.65 billion
- End exemptions of bad debt of retailers that collect sales tax - \$64 million

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Area Agencies on Aging Association of Michigan

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