

# Tax Treatment of Military Pension Income

Senate Committee on Finance and Revenue

4/9/2025



# Overview of Presentation

- Background on military retirement pay ([link](#) to LRO's 2024 report)
- Number of military retirees in Oregon
- Military retirement income in Oregon
- Income of taxpayers reporting military retirement income
- Age of military retirees
- Preliminary revenue estimates of various policies exempting military retirement income
- Other states

# Three General Categories of Military Retirement Pay

- 1) Active duty non-disability retired pay
- 2) Retired pay for reserve service
- 3) Disability retired pay

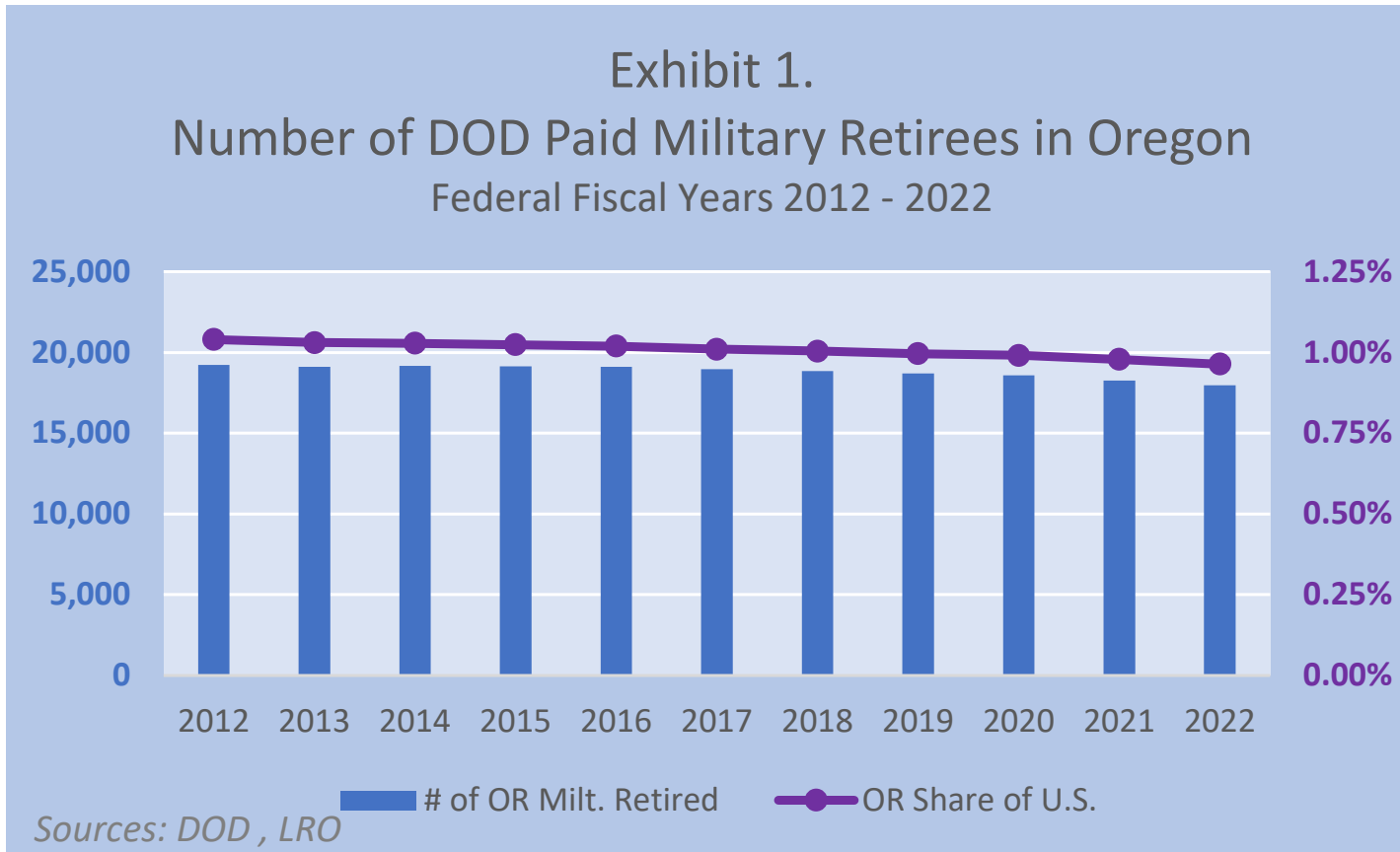
# Active Duty Non-Disability

- Earned after 20 years of service
  - Average service length is about 23 years
  - Average age at retirement is about 44
- Military retirement system has changed over the years, now includes
  - Defined benefit
  - Defined contribution, Blended Retirement System (BRS)
  - Potential lump sum payments paid upon initial retirement
- Pension is potentially taxable
  - All federal pension income earned from pre-1991 employment is not taxable
  - Defined benefit pension is taxable
  - Defined contribution may be taxable if not from after-tax (Roth) contributions

# Reserve Retirement and Disability Retired

- Reserve Retirement
  - Generally, become eligible to receive retirement pay at age 60
  - Taxable / non-taxable as described on previous slide
- Disability Retired
  - Service-connected disability pension income not subject to taxation if disability is the result of a combat-related injury

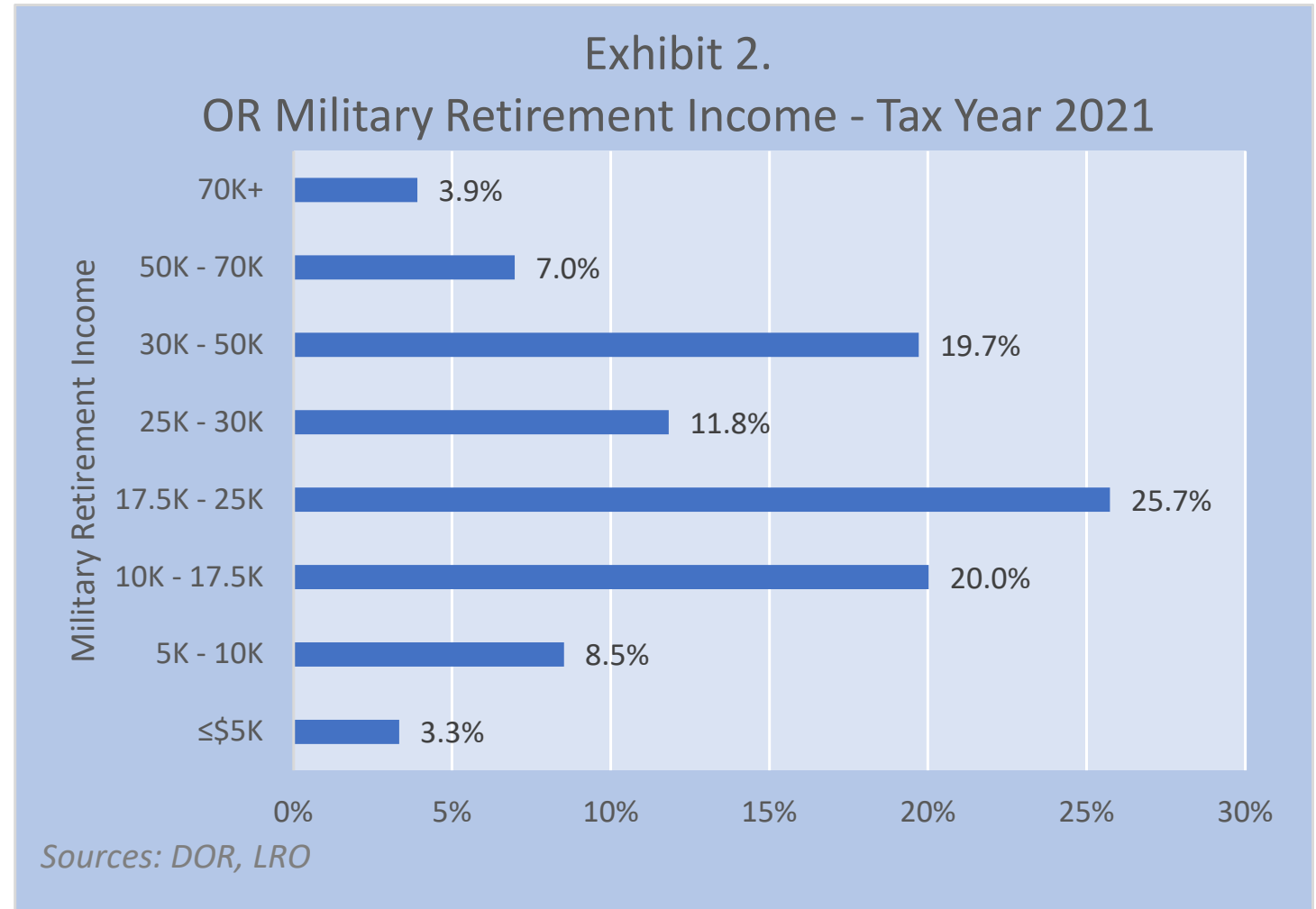
# Number of Dept. of Defense Paid Military Retirees in Oregon



DOD Paid Military Retirees in Oregon - Fed. FY 2023		
Retirees	Amt. Paid (Annualized)	Annual Avg.
17,981	\$509.8M	\$28,353

# Amount of Military Retirement Income - Tax Year 2021

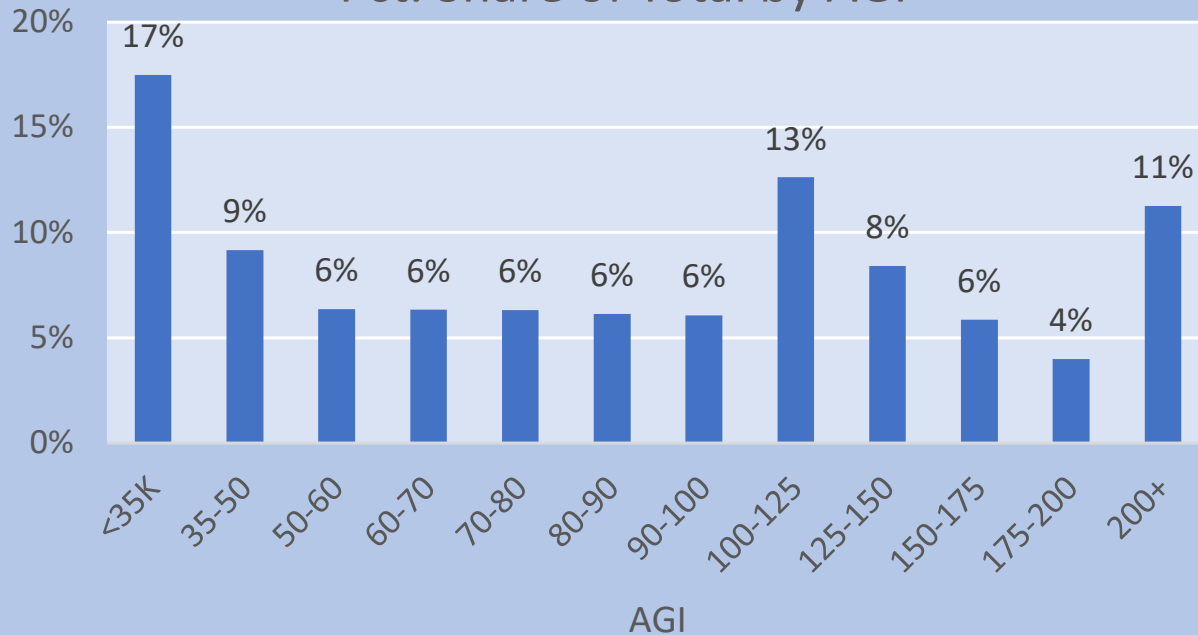
- Reflects amount of military retirement pay
- Includes amounts exempt from taxation under current law



# Share of Military Retirement Income and Taxpayer's AGI

Exhibit 3a.

Taxpayers with Milt. Ret. Inc. | TY 2021  
Pct. Share of Total by AGI

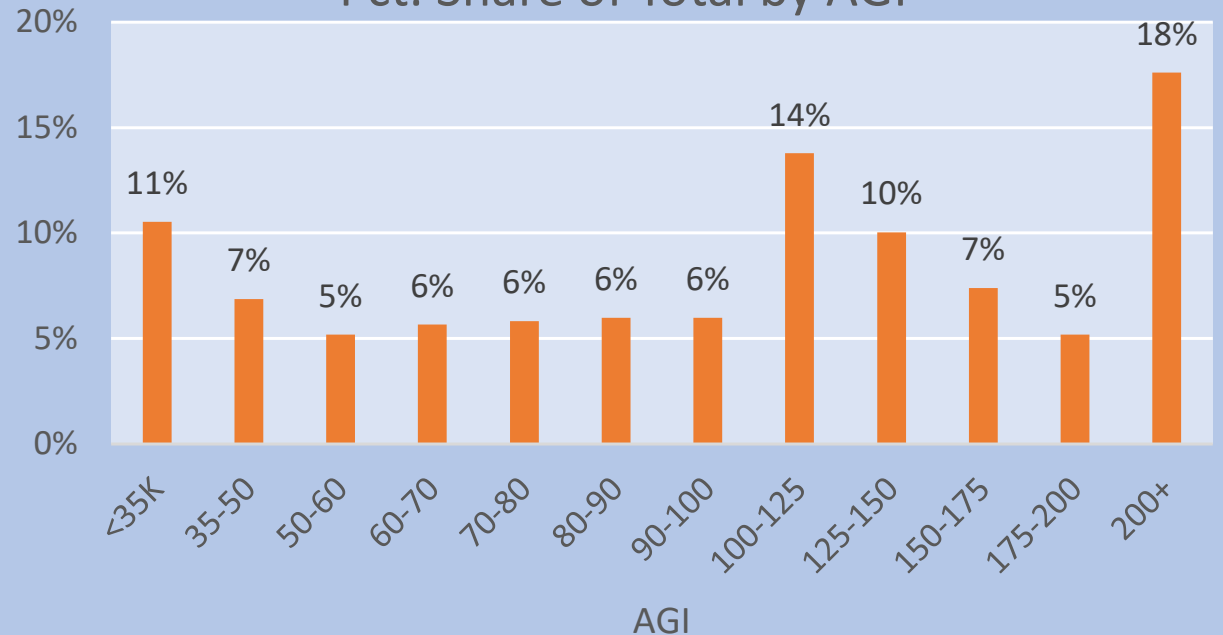


Sources: DOR, LRO

# of Taxpayers

Exhibit 3b.

Taxpayers with Milt. Ret. Inc. | TY 2021  
Pct. Share of Total by AGI



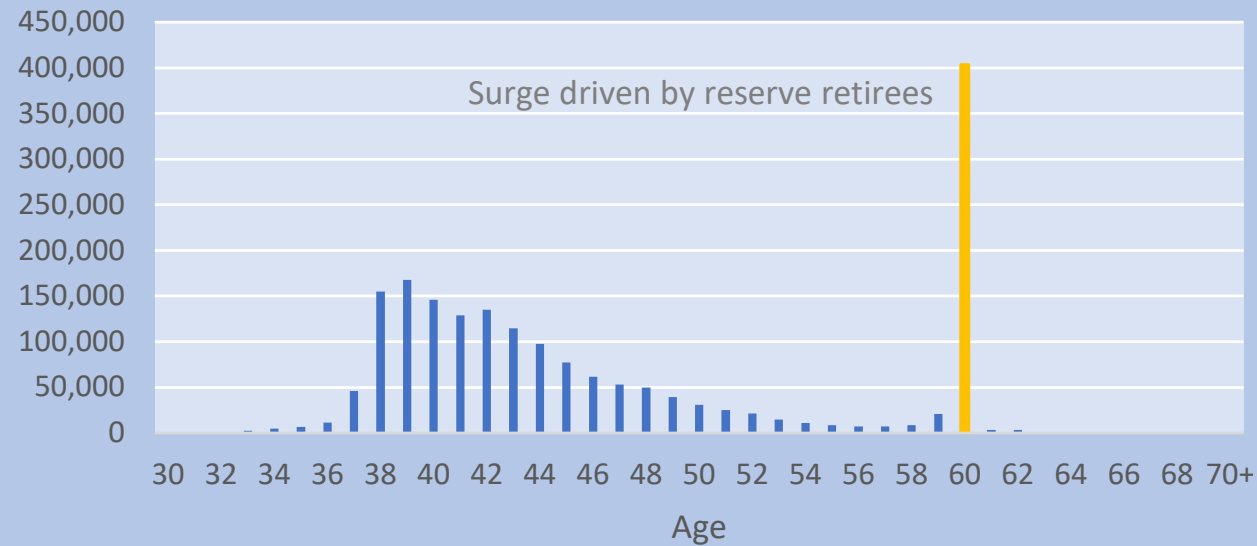
Military Retirement Inc.



# Age of Military Retirees

Exhibit 5

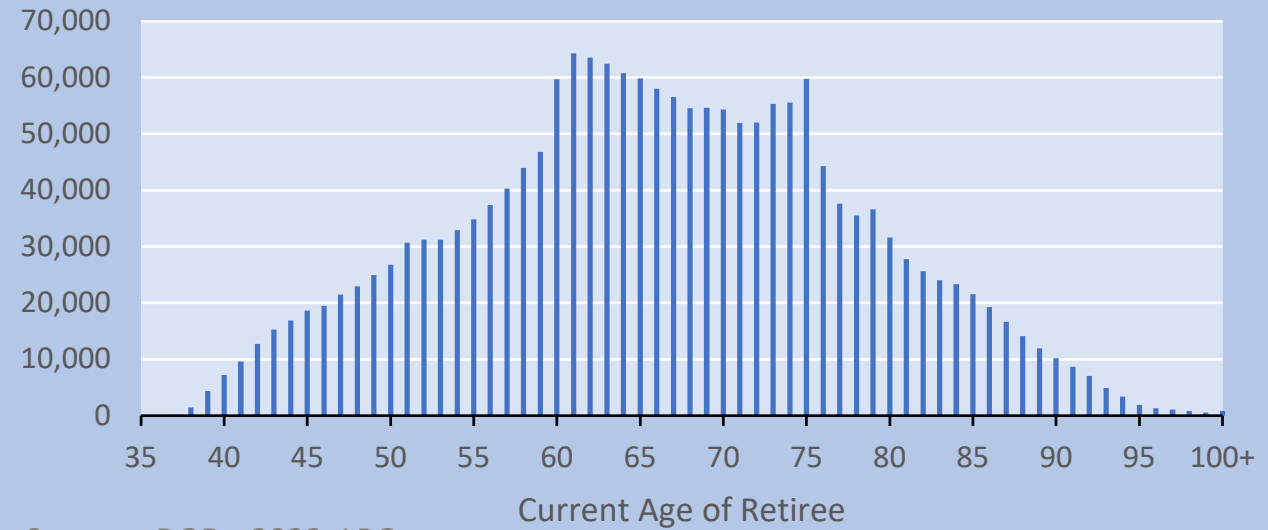
Number of Retirees by Age at Time of Retirement U.S. |  
Non Disability | As of Sept. 2022



Sources: DOD - 2023, LRO

Exhibit 6.

Number of Military Retirees by Age of Retiree - U.S.  
(as of Sept. 30, 2022)



Sources: DOD - 2023, LRO

# Preliminary Revenue Estimates of Various Policy Options

Policy	Fiscal Year		Biennium (\$'s in millions)		
	2025-26	2026-27	2025-27	2027-29	2029-31
Full Exclusion		-\$33.7	-\$33.7	-\$73.9	-\$83.2
Full Exc. Age > 65		-\$13.1	-\$13.1	-\$29.8	-\$35.2
Full Exc. Age > 50		-\$28.6	-\$28.6	-\$63.2	-\$71.6
≤ 17.5K   < 63		-\$8.7	-\$8.7	-\$18.4	-\$19.7
≤ 17.5K   < 62		-\$8.1	-\$8.1	-\$17.2	-\$18.4
≤ 17.5K   < 60		-\$6.9	-\$6.9	-\$14.7	-\$15.7
≤ 17.5K   No age limit		-16.8	-\$16.8	-\$35.9	-\$39.2
≤ 17.5K   ≥ 63		-8.0	-\$8.0	-\$17.5	-\$19.5
Full Exc.   < 63		-\$19.0	-\$19.0	-\$40.5	-\$43.7

# Other States

Table 3. – Tax Treatment of Military Retirement Income by State

Tax Treatment <sup>22</sup>	States		
<b>States (with an income tax) that do not tax military retirement income</b> <b>(26)</b>	Alabama Arizona Arkansas Connecticut Hawaii Illinois Indiana Iowa Kansas	Louisiana Maine Massachusetts Michigan Minnesota Mississippi Missouri Nebraska New Hampshire	New Jersey New York North Carolina North Dakota Ohio Oklahoma Pennsylvania Wisconsin
<b>States partially taxing military retirement income</b> <b>(11)</b>	Colorado Delaware Georgia Idaho	Kentucky Maryland New Mexico <b>Oregon</b>	South Carolina Virginia West Virginia
<b>States fully taxing military retirement income</b> <b>(6)</b>	California Montana	Rhode Island Utah	Vermont Washington D.C.

Sources: (Intuit, 2024), (U.S. Army, 2024)

