

Iowa Department of Revenue

# Issue Paper: State Tax Policy Implications of an Aging Population

## Introduction

At the time of the last census 436,213 Iowans were age 65 or older, which equaled 14.9 percent of the State's total population. According to U.S. Census Bureau projections, the share of Iowa's population 65 years old or older will increase to 22.4 percent by 2030. Over the same period, the number of Iowans ages 18 to 55 will decrease from 1,499,061 to 1,301,821, an absolute decline of 197,240, and in percentage term a decrease from 51.2 percent to 44.1 percent of the State's total population.

This shift in the age structure of the State's population presents significant challenges for the State's economy and for State government. From the perspective of the overall economy, unless people continue to work at ages much greater than they currently do, Iowa's businesses will have a difficult time finding workers. This problem will be exacerbated by the increased need to health care, nursing home, home maintenance, and personal service workers. Furthermore, State government will likely face increased demand for services by the elderly and increased Medicaid costs.

This paper focuses on fiscal issues likely to arise from the aging of the State's population. In addition, it attempts to address a variety of issues associated with the taxation of sources of retirement income. The specific issues addressed in the paper include:

- How the age structure of Iowa taxpayers will change over the next 25 years.
- How sources of income vary by taxpayer age.
- How sources of income vary by residency status.
- Tax system characteristics of states to which retirement age Iowans are migrating.
- The extent to which income from different sources varies from year-to-year and how such variation affects the extent to which social security and pension income is subject to taxation.
- The extent to which spending habits and the taxability of purchases vary by age.

The estimates of the potential fiscal impacts arising from different proposals related to the taxation of retirement income are not presented in this paper.

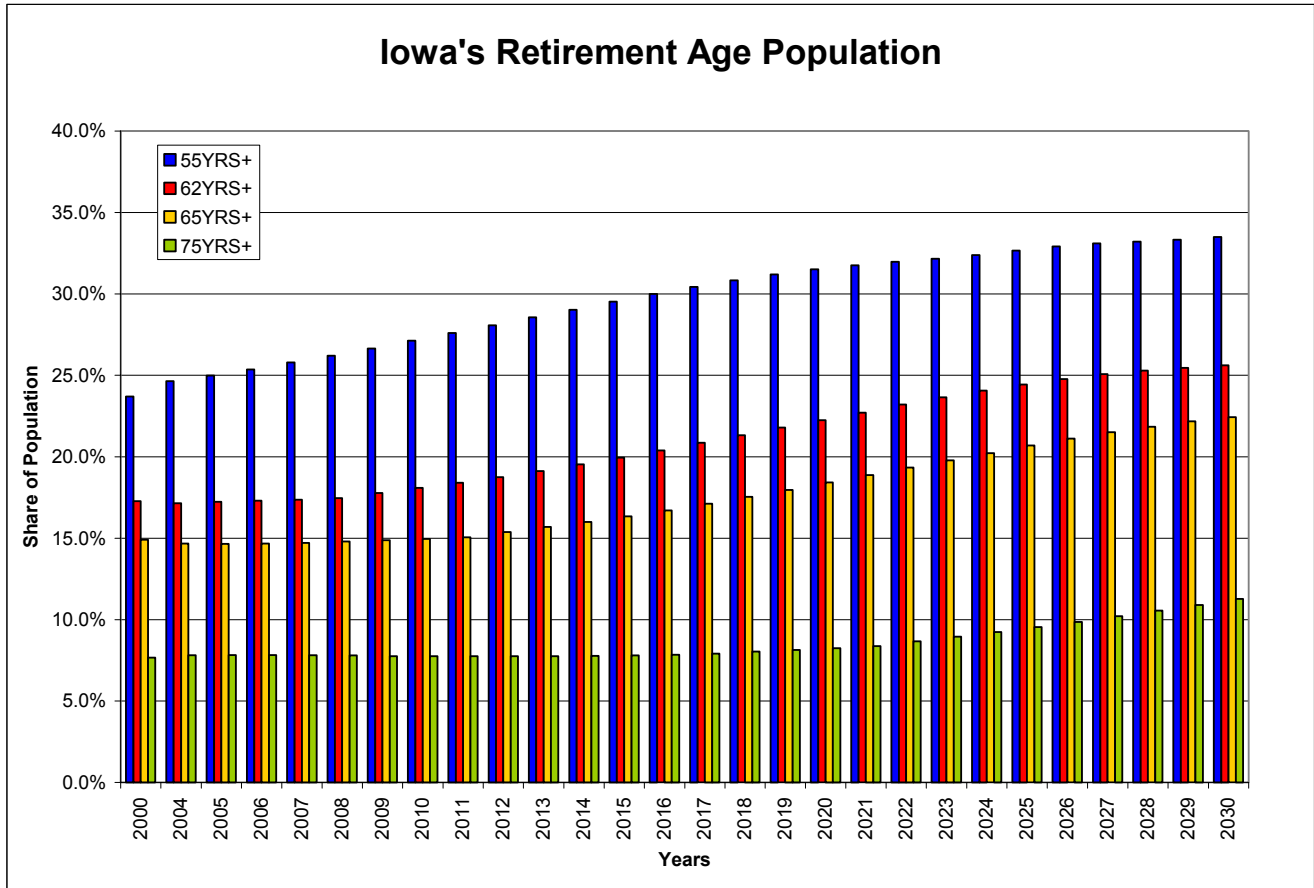
## Iowa's Aging Population

The number of Iowans reaching retirement age will begin to increase at an accelerating rate over the next decade. Over the five years since the last census, the number of Iowans 55 years old or older increased from 693,625 to 743,068, or by 49,443 (7.1%). By 2010 the number of Iowans at least 55 years old is projected to increase by another 73,687 (9.9%), and the U.S. Census Bureau projects that by 2030 the number of Iowans at least 55 years old will equal 990,050. Over this 30 year period the state's total population is projected to increase by only 28,848 (1.0%). This means that over one-third (33.5%) of the state's population will be of retirement age by 2030 compared to 23.7 percent in 2000 and 25.0 percent in 2005.

Although most Iowans are still working at age 55, this age nevertheless provides a good benchmark for evaluating potential impacts of an aging population on the state's tax base because at age 55 Iowans qualify for the partial pension income exclusion for individual income tax purposes. Another important age is 62 years because this is the age at which individuals can begin collecting social security retirement benefits. Other ages often used to demarcate the young elderly and the old elderly are 65 years and 75 years. Age 65 is the age most commonly regarded as the age at which people retire. It is also at this age when many life-long Iowans move out of state or at least leave the state during the winter months. Age 75, on the other hand, is the age when many elderly Iowans move back to the state to be closer to children and other family members. This is also the age when due to medical problems or just because they become less able to care for themselves that

their demand for public services and support begins to increase. The leading edge of the baby boom generation will reach the age of 75 in the year 2021.

Regardless of which age is used as a benchmark for measuring the aging of Iowa's population, the following chart clearly shows that Iowans are getting older. Table 1A in the appendix to this paper shows the projected population of the state above each of these ages by year through 2030. Table 2A shows the percentage of the state's population above each age level by year through 2030.



Furthermore, because the sources from which taxpayers derive their income change as they age and because the tax treatment of income from different sources varies the fact that Iowa's population is aging has significant implications for the state's budget.

### Sources of Income by Taxpayer Age

Based on tax year 2003 returns, wages accounted for over two-thirds of reported income. On the other hand, taxable social security payments, taxable pension income, and taxable IRA distributions accounted for only 1.78 percent, 4.93 percent, and 1.37 percent, respectively, of total adjusted gross income reported on tax returns. However, the distribution of sources of income varies greatly by age of taxpayer, and these variations have significant implications for state tax policy.

Table 1 presents three breakdowns of taxpayers' household income by source and by age of the primary filer for those taxpayers that filed both federal and Iowa tax returns for 2003. The top part of the table presents amounts of total income by source. The middle part of the table presents both the percentage of taxpayers by age and the percentages of total adjusted gross income by source for each age group. The bottom part of the table presents the average amount of adjusted gross income derived from each source by age group.

Focusing on the middle part of the table and looking down the columns one can see how the relative importance of each source of income varies by age. For example, for taxpayers under 25 years old wages account for 94.33 percent of adjusted gross income, while for taxpayers over 85 years old wages account for only 2.28

Table 1: Sources of Income for All Taxpayers, 2003

Income Source Amounts by Age												
Age	Number Of Returns	Wages	Taxable Interest	Dividends	Schedule C (Business) Income		Taxable Ira Distributions	Taxable Pensions	Schedule E (Passive) Income	Farm Income	Taxable Social Security	State AGI
Under 25	238,852	2,749,709,932	22,688,753	15,225,173	28,879,717	22,173,850	1,603,410	6,759,757	81,788,021	-1,843,561	243,029	2,915,121,947
25 - 34	222,509	8,010,875,396	57,687,381	33,303,233	193,775,011	188,171,803	15,088,144	52,853,237	234,629,317	-14,260,794	1,400,686	8,731,888,187
35 - 44	239,610	11,841,595,000	188,527,303	101,932,086	345,241,747	1,272,432,819	45,505,592	107,066,687	1,178,164,929	-21,670,253	7,863,158	15,039,177,479
45 - 54	250,143	13,760,317,642	422,978,569	292,806,074	679,933,893	998,717,751	83,649,629	224,111,632	2,074,457,474	-36,008,536	23,410,387	18,393,351,511
55 - 64	174,043	7,754,183,116	635,148,488	404,062,725	467,517,685	1,152,127,773	209,289,575	989,855,282	2,159,717,862	7,472,149	146,532,245	13,404,642,006
65 - 74	109,965	1,491,124,855	541,485,587	313,999,868	118,326,921	815,289,527	340,495,844	1,125,735,473	1,279,868,362	2,202,712	593,319,542	5,539,959,433
75 - 84	74,348	229,704,633	510,749,815	365,157,166	1,303,918	478,110,056	219,773,864	661,704,310	694,969,068	6,292,775	318,539,998	3,118,185,419
85 +	30,620	21,838,588	292,755,320	149,864,385	1,139,257	132,894,552	19,968,466	192,288,690	277,232,685	2,085,680	121,947,269	979,913,565
Total	1,340,090	45,859,349,162	2,672,021,216	1,676,350,710	1,836,118,149	5,059,918,131	935,374,524	3,360,375,068	7,980,827,718	-55,729,828	1,213,256,314	68,122,239,547

Income Source Shares by Age												
Age	Number Of Returns	Wages	Taxable Interest	Dividends	Schedule C (Business) Income		Taxable Ira Distributions	Taxable Pensions	Schedule E (Passive) Income	Farm Income	Taxable Social Security	State AGI
Under 25	17.82%	94.33%	0.78%	0.52%	0.99%	0.76%	0.06%	0.23%	2.81%	-0.06%	0.01%	100.00%
25 - 34	16.60%	91.74%	0.66%	0.38%	2.22%	2.15%	0.17%	0.61%	2.69%	-0.16%	0.02%	100.00%
35 - 44	17.88%	78.74%	1.25%	0.68%	2.30%	8.46%	0.30%	0.71%	7.83%	-0.14%	0.05%	100.00%
45 - 54	18.67%	74.81%	2.30%	1.59%	3.70%	5.43%	0.45%	1.22%	11.28%	-0.20%	0.13%	100.00%
55 - 64	12.99%	57.85%	4.74%	3.01%	3.49%	8.59%	1.56%	7.38%	16.11%	0.06%	1.09%	100.00%
65 - 74	8.21%	26.92%	9.77%	5.67%	2.14%	14.72%	6.15%	20.32%	23.10%	0.04%	10.71%	100.00%
75 - 84	5.55%	7.37%	16.38%	11.71%	0.04%	15.33%	7.05%	21.22%	22.29%	0.20%	10.22%	100.00%
85 +	2.28%	2.23%	29.88%	15.29%	0.12%	13.56%	2.04%	19.62%	28.29%	0.21%	12.44%	100.00%
Total	100.00%	67.32%	3.92%	2.46%	2.70%	7.43%	1.37%	4.93%	11.72%	-0.08%	1.78%	100.00%

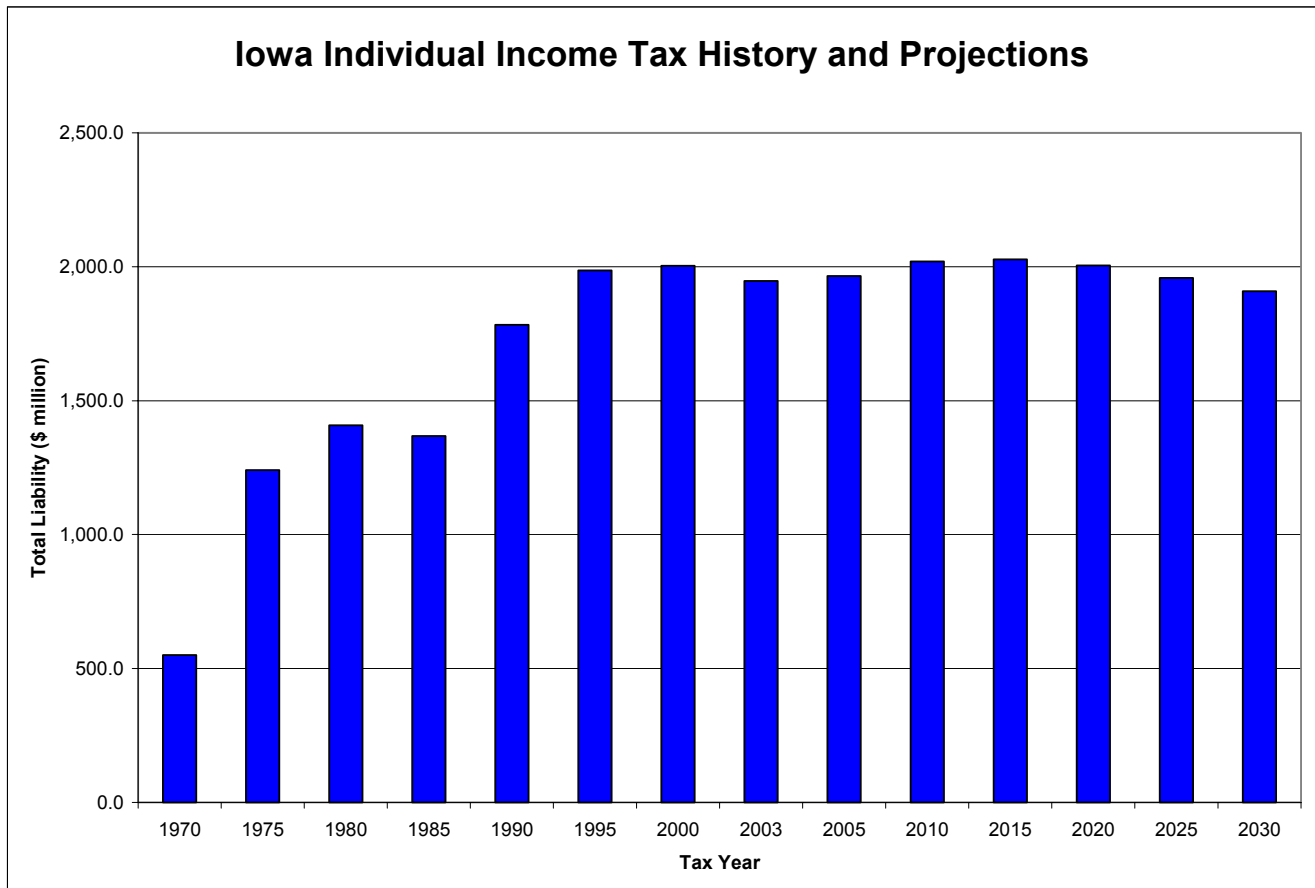
Average Income by Source and Age												
Age	Number Of Returns	Wages	Taxable Interest	Dividends	Schedule C (Business) Income		Taxable Ira Distributions	Taxable Pensions	Schedule E (Passive) Income	Farm Income	Taxable Social Security	State AGI
Under 25	238,852	11,512	95	64	121	93	7	28	342	-8	1	12,205
25 - 34	222,509	36,002	259	150	871	846	68	238	1,054	-64	6	39,243
35 - 44	239,610	49,420	787	425	1,441	5,310	190	447	4,917	-90	33	62,765
45 - 54	250,143	55,010	1,691	1,171	2,718	3,993	334	896	8,293	-144	94	73,531
55 - 64	174,043	44,553	3,649	2,322	2,686	6,620	1,203	5,687	12,409	43	842	77,019
65 - 74	109,965	13,560	4,924	2,855	1,076	7,414	3,096	10,237	11,639	20	5,396	50,379
75 - 84	74,348	3,090	6,870	4,911	18	6,431	2,956	8,900	9,348	85	4,284	41,940
85 +	30,620	713	9,561	4,894	37	4,340	652	6,280	9,054	68	3,983	32,002
Total	1,340,090	34,221	1,994	1,251	1,370	3,776	698	2,508	5,955	-42	905	50,834

percent of adjusted gross income. On the other hand, taxable interest income accounts for only 0.78 percent of total adjusted gross income for taxpayers under 25 years old, but this source accounts for 29.88 percent of adjusted gross income for taxpayers age 85 years and older.

Looking across the rows of the table, a change in the relative importance of difference sources of income appears to begin at about age 55 and to start showing more pronounced changes at age 65. Comparing taxpayers ages 55 to 64 with those ages 65 to 74 the share of total adjusted gross income accounted for by wages decreases from 57.85 percent to 26.92 percent. Similarly, for these two age groups the share of adjusted gross income accounted for by taxable interest increases from 4.74 percent to 9.77 percent; by dividends, increases from 3.01 percent to 5.67 percent; by capital gains, increases from 8.58 percent to 14.72 percent; by taxable IRA distributions, increases from 1.56 percent to 6.15 percent; by taxable pensions, increases from 7.38 percent to 20.32 percent; and by taxable social security income, increases from 1.09 percent to 10.71 percent.

The bottom part of the table shows other changes in total adjusted gross income and within some of the sources of income that have significant implications for future State budgets. First, even if no legislation is enacted that would further reduce the shares of retirement or investment income subject to tax, the amount of individual income tax revenue the State will collect may be expected to decline as the State's population ages. As the table shows, average adjusted gross income decreases by \$26,640 (34.6%) between the 55 to 64 years old and the 65 to 74 years old age groups. Second, whereas only 10.0 percent of the income of households with the primary filer age 55 to 64 years old is subject to any exclusion thresholds, for households with the primary filer age 65 to 74 years old 37.2 percent of income is of types subject to exclusion thresholds. It may be that future retirees will have higher real incomes than those of similar age today, nevertheless the revenue implications of these statistics merits serious consideration.

The following chart shows that if future taxpayers have similar individual income tax liabilities as taxpayers of the same age as for 2003 the total amount of tax revenue generated from this source will top out in about 2015 at \$2.027 billion. In comparison for tax year 2003 Iowa's individual income tax generated \$1.947 billion in revenue.



The chart reflects tax collections in terms of 2003 dollars by using the consumer price index to net out the impacts of both past and future inflation. The large increase in tax revenue between 1970 and 1975 resulted from two rate increases that raised the top marginal tax rate from 4.5 percent to 13.0 percent. Similarly, individual income tax revenue remained relatively flat between 1995 and 2000 because of a law change enacted in 1997 that reduced all tax rates by ten percent beginning January 1, 1998.

The continued real growth in individual income tax revenue through 2015 can be attributed to the baby boom generation moving through its highest earning years. But by 2015 the baby boomers begin to approach 70 years of age, and as a result, from that point on according to U.S. Census Bureau projections Iowa's population of retirees grows significantly. As people retire their overall incomes and especially their taxable incomes decrease. Consequently, the projections reflected in the chart show individual income tax revenues decreasing from \$2.027 billion in 2015 to \$2.005 billion by 2020 and by 2030 only reaching \$1.909 billion.

## Sources of Income by Residency Status

Individuals that file Iowa individual income tax returns have one of four residency statuses. They are:

- Full-year resident of Iowa
- Part-year resident that migrates into Iowa
- Part-year resident that migrates out of Iowa
- Full-year nonresident with some Iowa source income.

Table 2 presents a breakout of adjusted gross income by source of income and by age group for each of the four residency status for tax year 2003. That year resident taxpayers filed 89.6 percent of Iowa individual income tax returns, while the percentages of returns filed by immigrants, outmigrants, and full-year nonresidents equaled 2.0 percent, 0.9 percent, and 7.5 percent, respectively. Also, for that tax year full-year residents incurred 95.8 percent of the total individual income tax liability, while the shares owed by immigrants, outmigrants, and full-year nonresidents equaled 0.8 percent, 0.3 percent, and 3.0 percent, respectively. The data presented in Table 2 represents total earnings for each of the four residency groups, not just Iowa source income. Consequently, for those taxpayers that resided at least part of 2003 outside Iowa some portion of their income earned that year was not subject to Iowa tax.

Table 3 is organized in a manner similar to Table 2, but it shows in percentage terms the relative importance of each source of income by residency status and by age group. This table shows that the distribution of income by source is very similar for full-year residents, immigrants, and outmigrants. On the other hand, for full-year nonresidents there are some notable differences from the other three groups of taxpayers. For example, wages account for only about 31.0 percent of total income for full-year nonresidents, whereas for each of the other three groups wages account for at least 80 percent of total income. Also, for full-year nonresidents capital gains and passive investment income account for 19.9 percent and 27.6 percent, respectively, of total income. For the other three groups of taxpayers neither of these income sources is nearly as important. One may speculate that the relative greater importance of investment sources of income for nonresidents compared to the other groups is due to these taxpayers being significantly older on average. However, this does not prove to be the case. The share of nonresidents over 55 years old equals 31.6 percent for full-year nonresidents compared to 29.3 percent for full-year residents. The shares of full-year nonresident and full-year resident taxpayers over 65 years old are almost exactly equal, 16.1 percent and 16.4 percent, respectively. The age distributions for the two groups of migrants seem to be considerably younger with the share over age 55 for immigrants equal to 13.5 percent and for outmigrants equal to 17.2 percent.

Table 4 presents information on average amounts of income derived from each source by taxpayer age for each of the four residency statuses. This table shows that the average adjusted gross income for the four residency statuses is: full-year residents, \$40,217; immigrants, \$50,277; outmigrants, \$43,794; and full-year nonresidents, \$177,913. Again it should be noted that much of the income earned by full-year nonresidents is from non-Iowa sources. One of the more interesting findings revealed by this table is that for all age groups immigrants had higher adjusted gross incomes than did outmigrants. In particular, for those taxpayers ages 65 to 74 the average income for immigrants equaled \$54,694 compared to \$38,944 for outmigrants. Similarly, for taxpayers

Table 2: Sources of Income by Age, 2003

Full Year Residents													
Age	Number Of Returns	Wages	Taxable Interest	Dividends	Schedule C (Business) Income	Capital Gains	Taxable IRA Distributions	Taxable Pensions	Schedule E (Passive) Income	Farm Income	Taxable Social Security	State AGI	State Tax Liability (Model Results; Present Policy)
Under 25	207,493	2,396,780,962	15,336,100	10,106,202	24,983,623	4,655,463	1,387,785	5,240,207	16,314,786	-1,969,328	162,182	2,464,334,853	57,612,803
25 - 44	414,450	17,194,195,759	84,484,201	50,802,987	527,894,679	160,822,188	51,233,262	131,827,939	554,996,663	-27,499,709	8,266,926	18,590,295,538	700,315,545
45 - 54	226,942	11,701,296,914	155,821,399	117,014,135	575,108,222	307,749,995	70,271,598	191,092,194	768,039,728	-13,406,358	21,192,312	13,640,146,114	559,811,721
55 - 64	154,911	6,190,840,014	220,686,538	167,582,574	368,610,354	412,453,819	172,091,693	840,193,375	622,336,315	24,522,735	126,271,243	8,322,226,729	335,126,044
65 - 74	99,306	1,057,005,409	283,595,520	156,752,790	101,845,044	274,387,821	277,722,518	971,866,359	472,384,871	14,852,078	491,645,923	3,035,536,299	102,478,233
75 - 84	68,678	154,798,195	353,385,877	187,815,711	23,312,593	178,207,536	182,888,637	582,278,004	361,168,266	9,385,422	268,612,811	1,566,756,603	50,103,932
85 or Over	28,439	13,352,407	221,298,537	107,568,594	869,316	80,004,953	17,023,825	170,453,528	156,514,183	1,800,794	106,364,200	650,218,745	18,911,671
Totals	1,200,219	38,708,269,660	1,334,608,172	797,642,993	1,622,623,831	1,418,281,775	772,619,318	2,892,951,606	2,951,754,812	7,685,634	1,022,515,597	48,269,514,881	1,824,359,949

Part Year Residents - Inmigrants													
Age	Number Of Returns	Wages	Taxable Interest	Dividends	Schedule C (Business) Income	Capital Gains	Taxable IRA Distributions	Taxable Pensions	Schedule E (Passive) Income	Farm Income	Taxable Social Security	State AGI	State Tax Liability (Model Results; Present Policy)
Under 25	5,887	102,869,406	503,119	392,353	630,907	446,849	85,312	697,784	800,533	104,597	3,136	105,458,400	997,191
25 - 44	13,568	658,845,546	4,151,728	2,887,142	15,459,699	8,474,166	2,874,275	10,668,816	12,910,105	-400,593	197,257	705,089,359	8,945,864
45 - 54	3,439	226,024,751	3,381,141	2,183,230	6,435,777	19,672,775	2,524,301	7,912,872	4,414,242	-449,122	273,317	266,127,129	3,229,840
55 - 64	2,187	115,818,083	5,128,353	8,260,781	4,447,220	12,088,006	5,053,337	21,912,776	13,362,142	-408,686	2,283,739	178,428,355	1,989,588
65 - 74	816	14,802,652	2,866,741	2,235,524	559,094	5,348,235	4,056,139	12,144,554	4,410,077	112,722	6,759,180	44,629,908	452,186
75 - 84	394	1,577,607	2,626,789	1,917,800	240,959	6,233,420	1,577,399	6,001,466	3,218,028	-16,588	3,030,797	22,666,495	249,633
85 or Over	164	26,871	1,306,780	1,063,957	-8,082	1,756,245	103,957	2,144,288	1,499,064	17,858	1,286,849	7,666,179	91,646
Totals	26,455	1,119,964,916	19,964,651	18,940,787	27,765,574	54,019,696	16,274,720	61,482,556	40,614,191	-1,039,812	13,834,275	1,330,065,825	15,955,948

Part Year Residents - Outmigrants													
Age	Number Of Returns	Wages	Taxable Interest	Dividends	Schedule C (Business) Income	Capital Gains	Taxable IRA Distributions	Taxable Pensions	Schedule E (Passive) Income	Farm Income	Taxable Social Security	State AGI	State Tax Liability (Model Results; Present Policy)
Under 25	2,742	45,940,076	231,198	135,044	312,580	19,959	35,481	122,836	79,426	-33,302	0	46,104,301	401,005
25 - 44	5,720	252,785,086	883,704	571,886	3,383,919	2,060,714	1,016,386	4,123,033	2,670,024	-582,656	105,183	263,527,527	3,217,531
45 - 54	1,759	100,150,767	1,244,826	667,796	2,749,322	4,752,255	1,222,163	3,332,648	5,448,489	-1,105,094	128,455	118,913,720	1,510,628
55 - 64	1,241	55,062,552	1,711,257	957,928	1,608,571	6,221,525	2,037,736	10,940,901	3,147,768	-682,884	1,342,393	79,085,283	1,009,148
65 - 74	542	5,708,747	1,377,266	813,445	439,007	2,890,183	2,079,824	6,844,899	2,158,053	-161,168	3,428,257	21,107,469	210,813
75 - 84	241	411,639	1,097,220	1,029,972	-1,371	602,093	852,285	2,887,113	3,401,921	411,602	1,396,435	9,883,404	79,330
85 or Over	99	4,988	471,673	379,538	-2,691	165,058	51,178	746,363	475,753	-11,871	326,672	1,974,497	20,087
Totals	12,344	460,063,855	7,017,144	4,555,609	8,489,337	16,711,787	7,295,053	28,997,793	17,381,434	-2,165,373	6,727,395	540,596,201	6,448,542

Non-Residents													
Age	Number Of Returns	Wages	Taxable Interest	Dividends	Schedule C (Business) Income	Capital Gains	Taxable IRA Distributions	Taxable Pensions	Schedule E (Passive) Income	Farm Income	Taxable Social Security	State AGI	State Tax Liability (Model Results; Present Policy)
Under 25	22,730	204,119,488	6,618,336	4,591,574	2,952,607	17,051,579	94,832	698,930	64,593,276	54,472	77,711	299,224,393	2,087,904
25 - 44	28,381	1,746,644,005	156,695,051	80,973,304	-7,721,539	1,289,247,554	5,469,813	13,300,136	842,217,454	-7,448,089	694,478	4,212,153,242	17,130,781
45 - 54	18,003	1,732,845,210	262,531,203	172,940,913	95,640,572	666,542,726	9,631,567	21,773,918	1,296,555,015	-21,047,962	1,816,303	4,368,164,548	13,645,827
55 - 64	15,704	1,392,462,467	407,622,340	227,261,442	92,851,540	721,364,423	30,106,809	116,808,230	1,520,871,637	-15,959,016	16,634,870	4,824,901,639	12,302,674
65 - 74	9,301	413,608,047	253,646,060	154,198,109	15,483,776	532,663,288	56,637,363	134,879,661	800,915,361	-12,600,920	91,486,182	2,438,685,757	6,904,817
75 - 84	5,035	72,917,192	153,639,929	174,393,683	-22,248,263	293,067,007	34,455,543	70,537,727	327,180,853	-3,487,661	45,499,955	1,518,878,917	3,886,172
85 or Over	1,918	8,454,322	69,678,330	40,852,296	280,714	50,968,296	2,789,506	18,944,511	118,743,685	278,899	13,969,548	320,054,144	929,875
Totals	101,072	5,571,050,731	1,310,431,249	855,211,321	177,239,407	3,570,904,873	139,185,433	376,943,113	4,971,077,281	-60,210,277	170,179,047	17,982,062,640	56,888,050

Table 3: Sources of Income Shares by Age, 2003

Full Year Residents												
Age	Number Of Returns	Wages	Taxable Interest	Dividends	Schedule C (Business) Income	Capital Gains	Taxable IRA Distributions	Taxable Pensions	Schedule E (Passive) Income	Farm Income	Taxable Social Security	State AGI
Under 25	207,493	97.26%	0.62%	0.41%	1.01%	0.19%	0.06%	0.21%	0.66%	-0.08%	0.01%	100.00%
25 - 44	414,450	92.49%	0.45%	0.27%	2.84%	0.87%	0.28%	0.71%	2.99%	-0.15%	0.04%	100.00%
45 - 54	226,942	85.79%	1.14%	0.86%	4.22%	2.26%	0.52%	1.40%	5.63%	-0.10%	0.16%	100.00%
55 - 64	154,911	74.39%	2.65%	2.01%	4.43%	4.96%	2.07%	10.10%	7.48%	0.29%	1.52%	100.00%
65 - 74	99,306	34.82%	9.34%	5.16%	3.36%	9.04%	9.15%	32.02%	15.56%	0.49%	16.20%	100.00%
75 - 84	68,678	9.88%	22.56%	11.99%	1.49%	11.37%	11.67%	37.16%	23.05%	0.60%	17.14%	100.00%
85 or Over	28,439	2.05%	34.03%	16.54%	0.13%	12.30%	2.62%	26.21%	24.07%	0.28%	16.36%	100.00%
Totals	1,200,219	80.19%	2.76%	1.65%	3.36%	2.94%	1.60%	5.99%	6.12%	0.02%	2.12%	100.00%

Part Year Residents - Inmigrants												
Age	Number Of Returns	Wages	Taxable Interest	Dividends	Schedule C (Business) Income	Capital Gains	Taxable IRA Distributions	Taxable Pensions	Schedule E (Passive) Income	Farm Income	Taxable Social Security	State AGI
Under 25	5,887	97.55%	0.48%	0.37%	0.60%	0.42%	0.08%	0.66%	0.76%	0.10%	0.00%	100.00%
25 - 44	13,568	93.44%	0.59%	0.41%	2.19%	1.20%	0.41%	1.51%	1.83%	-0.06%	0.03%	100.00%
45 - 54	3,439	84.93%	1.27%	0.82%	2.42%	7.39%	0.95%	2.97%	1.66%	-0.17%	0.10%	100.00%
55 - 64	2,187	64.91%	2.87%	4.63%	2.49%	6.77%	2.83%	12.28%	7.49%	-0.23%	1.28%	100.00%
65 - 74	816	33.17%	6.42%	5.01%	1.25%	11.98%	9.09%	27.21%	9.88%	0.25%	15.14%	100.00%
75 - 84	394	6.96%	11.59%	8.46%	1.06%	27.50%	6.96%	26.48%	14.20%	-0.07%	13.37%	100.00%
85 or Over	164	0.35%	17.05%	13.88%	-0.11%	22.91%	1.36%	27.97%	19.55%	0.23%	16.79%	100.00%
Totals	26,455	84.20%	1.50%	1.42%	2.09%	4.06%	1.22%	4.62%	3.05%	-0.08%	1.04%	100.00%

Part Year Residents - Outmigrants												
Age	Number Of Returns	Wages	Taxable Interest	Dividends	Schedule C (Business) Income	Capital Gains	Taxable IRA Distributions	Taxable Pensions	Schedule E (Passive) Income	Farm Income	Taxable Social Security	State AGI
Under 25	2,742	99.64%	0.50%	0.29%	0.68%	0.04%	0.08%	0.27%	0.17%	-0.07%	0.00%	100.00%
25 - 44	5,720	95.92%	0.34%	0.22%	1.28%	0.78%	0.39%	1.56%	1.01%	-0.22%	0.04%	100.00%
45 - 54	1,759	84.22%	1.05%	0.56%	2.31%	4.00%	1.03%	2.80%	4.58%	-0.93%	0.11%	100.00%
55 - 64	1,241	69.62%	2.16%	1.21%	2.03%	7.87%	2.58%	13.83%	3.98%	-0.86%	1.70%	100.00%
65 - 74	542	27.05%	6.53%	3.85%	2.08%	13.69%	9.85%	32.43%	10.22%	-0.76%	16.24%	100.00%
75 - 84	241	4.16%	11.10%	10.42%	-0.01%	6.09%	8.62%	29.21%	34.42%	4.16%	14.13%	100.00%
85 or Over	99	0.25%	23.89%	19.22%	-0.14%	8.36%	2.59%	37.80%	24.09%	-0.60%	16.54%	100.00%
Totals	12,344	85.10%	1.30%	0.84%	1.57%	3.09%	1.35%	5.36%	3.22%	-0.40%	1.24%	100.00%

Non-Residents												
Age	Number Of Returns	Wages	Taxable Interest	Dividends	Schedule C (Business) Income	Capital Gains	Taxable IRA Distributions	Taxable Pensions	Schedule E (Passive) Income	Farm Income	Taxable Social Security	State AGI
Under 25	22,730	68.22%	2.21%	1.53%	0.99%	5.70%	0.03%	0.23%	21.59%	0.02%	0.03%	100.00%
25 - 44	28,381	41.47%	3.72%	1.92%	-0.18%	30.61%	0.13%	0.32%	19.99%	-0.18%	0.02%	100.00%
45 - 54	18,003	39.67%	6.01%	3.96%	2.19%	15.26%	0.22%	0.50%	29.68%	-0.48%	0.04%	100.00%
55 - 64	15,704	28.86%	8.45%	4.71%	1.92%	14.95%	0.62%	2.42%	31.52%	-0.33%	0.34%	100.00%
65 - 74	9,301	16.96%	10.40%	6.32%	0.63%	21.84%	2.32%	5.53%	32.84%	-0.52%	3.75%	100.00%
75 - 84	5,035	4.80%	10.12%	11.48%	-1.46%	19.29%	2.27%	4.64%	21.54%	-0.23%	3.00%	100.00%
85 or Over	1,918	2.64%	21.77%	12.76%	0.09%	15.92%	0.87%	5.92%	37.10%	0.09%	4.36%	100.00%
Totals	101,072	30.98%	7.29%	4.76%	0.99%	19.86%	0.77%	2.10%	27.64%	-0.33%	0.95%	100.00%

Table 4: Average Income by Source and Age, 2003

Full Year Residents												
Age	Number Of Returns	Wages	Taxable Interest	Dividends	Schedule C (Business) Income	Capital Gains	Taxable IRA Distributions	Taxable Pensions	Schedule E (Passive) Income	Farm Income	Taxable Social Security	State AGI
Under 25	207,493	11,551	74	49	120	22	7	25	79	-9	1	11,877
25 - 44	414,450	41,487	204	123	1,274	388	124	318	1,339	-66	20	44,855
45 - 54	226,942	51,561	687	516	2,534	1,356	310	842	3,384	-59	93	60,104
55 - 64	154,911	39,964	1,425	1,082	2,379	2,663	1,111	5,424	4,017	158	815	53,723
65 - 74	99,306	10,644	2,856	1,578	1,026	2,763	2,797	9,787	4,757	150	4,951	30,568
75 - 84	68,678	2,254	5,146	2,735	339	2,595	2,663	8,478	5,259	137	3,911	22,813
85 or Over	28,439	470	7,782	3,782	31	2,813	599	5,994	5,504	63	3,740	22,864
Totals	1,200,219	32,251	1,112	665	1,352	1,182	644	2,410	2,459	6	852	40,217

Part Year Residents - Inmigrants												
Age	Number Of Returns	Wages	Taxable Interest	Dividends	Schedule C (Business) Income	Capital Gains	Taxable IRA Distributions	Taxable Pensions	Schedule E (Passive) Income	Farm Income	Taxable Social Security	State AGI
Under 25	5,887	17,474	85	67	107	76	14	119	136	18	1	17,914
25 - 44	13,568	48,559	306	213	1,139	625	212	786	952	-30	15	51,967
45 - 54	3,439	65,724	983	635	1,871	5,720	734	2,301	1,284	-131	79	77,385
55 - 64	2,187	52,958	2,345	3,777	2,033	5,527	2,311	10,020	6,110	-187	1,044	81,586
65 - 74	816	18,141	3,513	2,740	685	6,554	4,971	14,883	5,405	138	8,283	54,694
75 - 84	394	4,004	6,667	4,868	612	15,821	4,004	15,232	8,168	-42	7,692	57,529
85 or Over	164	164	7,968	6,488	-49	10,709	634	13,075	9,141	109	7,847	46,745
Totals	26,455	42,335	755	716	1,050	2,042	615	2,324	1,535	-39	523	50,277

Part Year Residents - Outmigrants												
Age	Number Of Returns	Wages	Taxable Interest	Dividends	Schedule C (Business) Income	Capital Gains	Taxable IRA Distributions	Taxable Pensions	Schedule E (Passive) Income	Farm Income	Taxable Social Security	State AGI
Under 25	2,742	16,754	84	49	114	7	13	45	29	-12	0	16,814
25 - 44	5,720	44,193	154	100	592	360	178	721	467	-102	18	46,071
45 - 54	1,759	56,936	708	380	1,563	2,702	695	1,895	3,097	-628	73	67,603
55 - 64	1,241	44,370	1,379	772	1,296	5,013	1,642	8,816	2,536	-550	1,082	63,727
65 - 74	542	10,533	2,541	1,501	810	5,332	3,837	12,629	3,982	-297	6,325	38,944
75 - 84	241	1,708	4,553	4,274	-6	2,498	3,536	11,980	14,116	1,708	5,794	41,010
85 or Over	99	50	4,764	3,834	-27	1,667	517	7,539	4,806	-120	3,300	19,944
Totals	12,344	37,270	568	369	688	1,354	591	2,349	1,408	-175	545	43,794

Non-Residents												
Age	Number Of Returns	Wages	Taxable Interest	Dividends	Schedule C (Business) Income	Capital Gains	Taxable IRA Distributions	Taxable Pensions	Schedule E (Passive) Income	Farm Income	Taxable Social Security	State AGI
Under 25	22,730	8,980	291	202	130	750	4	31	2,842	2	3	13,164
25 - 44	28,381	61,543	5,521	2,853	-272	45,426	193	469	29,675	-262	24	148,415
45 - 54	18,003	96,253	14,583	9,606	5,312	37,024	535	1,209	72,019	-1,169	101	242,635
55 - 64	15,704	88,669	25,957	14,472	5,913	45,935	1,917	7,438	96,846	-1,016	1,059	307,240
65 - 74	9,301	44,469	27,271	16,579	1,665	57,269	6,089	14,502	86,111	-1,355	9,836	262,196
75 - 84	5,035	14,482	30,514	34,636	-4,419	58,206	6,843	14,009	64,981	-693	9,037	301,664
85 or Over	1,918	4,408	36,329	21,299	146	26,574	1,454	9,877	61,910	145	7,283	166,869
Totals	101,072	55,120	12,965	8,461	1,754	35,330	1,377	3,729	49,184	-596	1,684	177,913



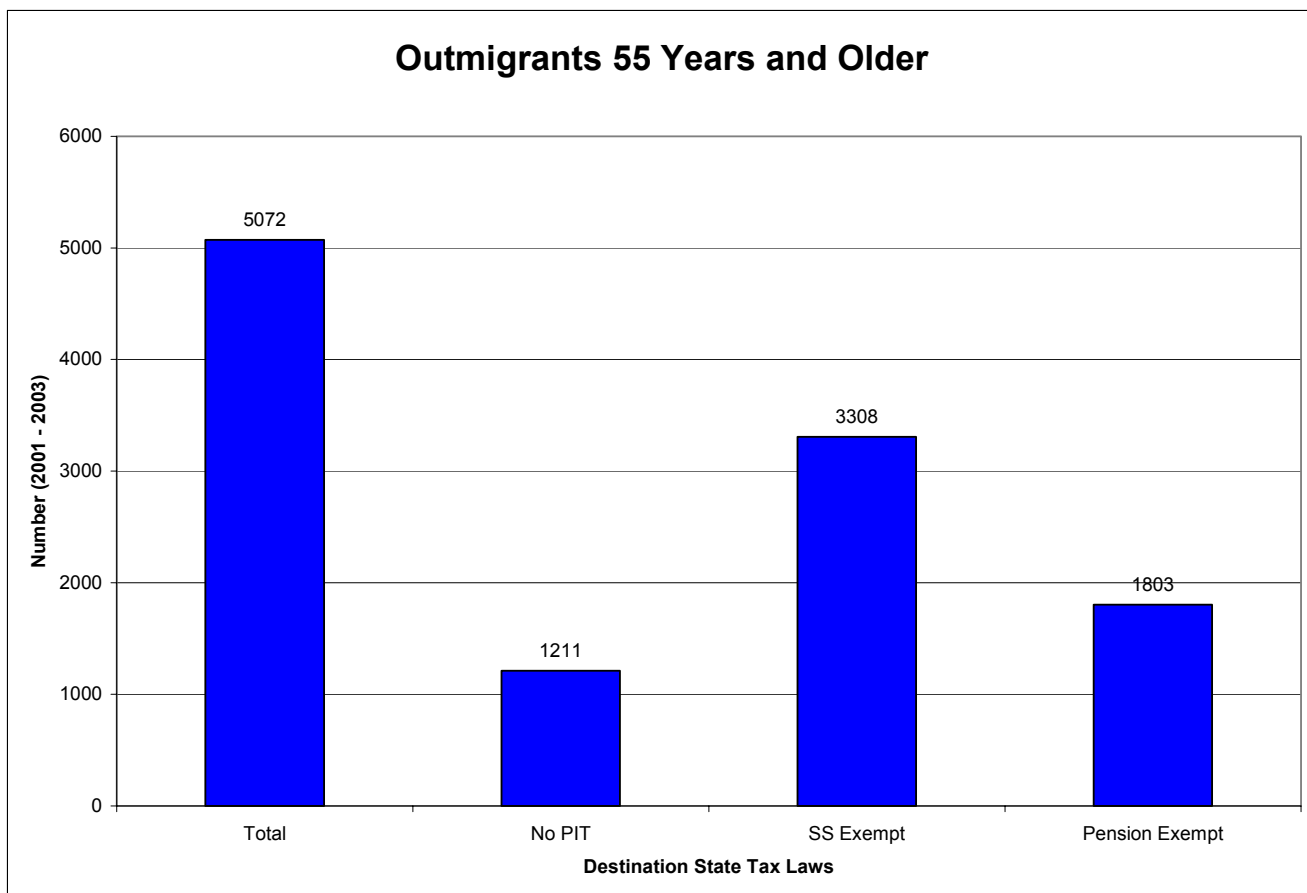
ages 75 to 84 immigrants average income equaled \$57,529 compared to \$41,010 for outmigrants. And for taxpayers ages 85 and older the average income of immigrants equaled \$46,745 compared to \$19,944 for outmigrants.

These comparisons dispel the contention that Iowa is experiencing a mass out migration of high income retirees. Even when one focuses just on sources of retirement income (i.e., pensions, taxable IRA distributions, and taxable social security income) immigrants have higher earnings than outmigrants for almost all age groups over 55 years old. Although compared to full-year elderly residents outmigrants do have higher levels of retirement income.

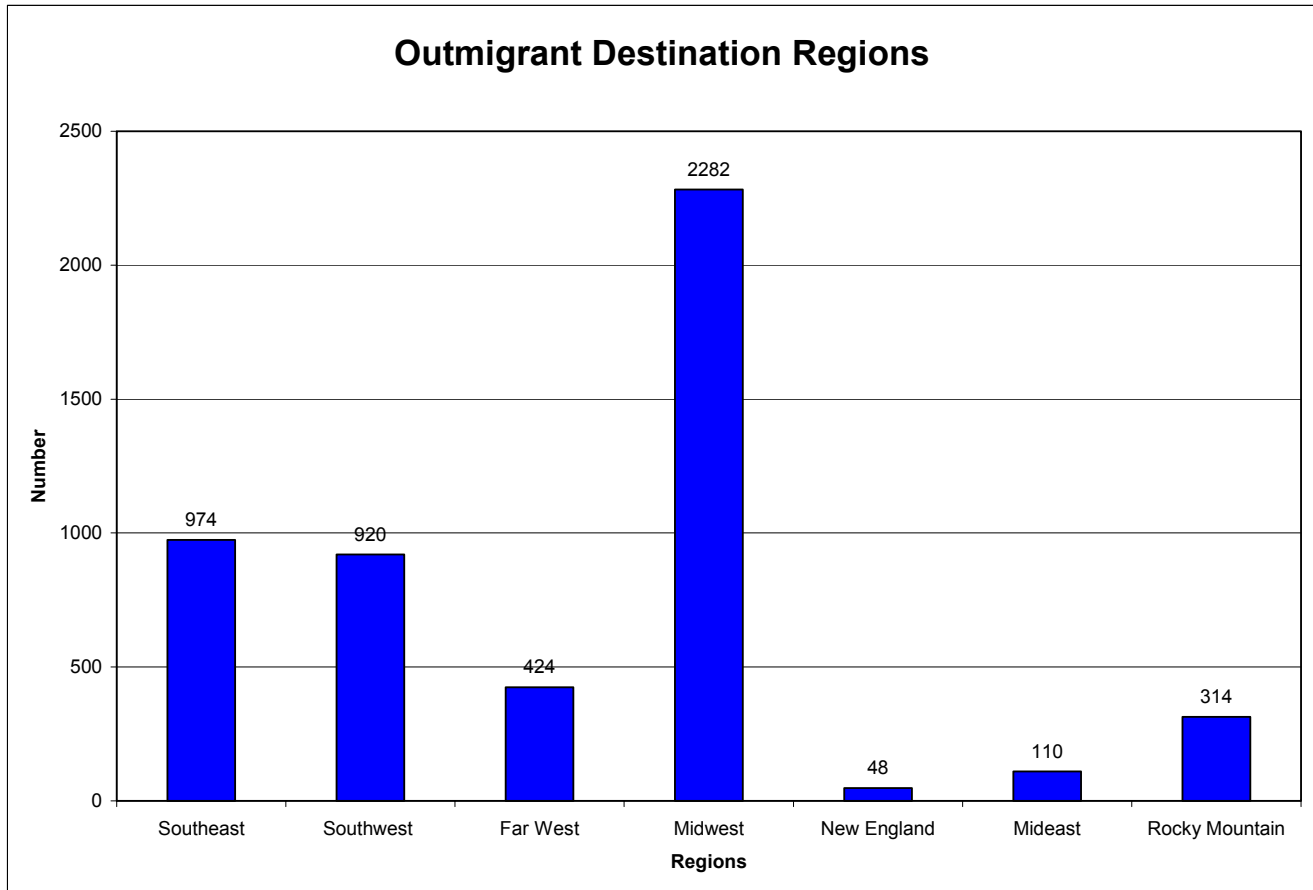
### Destinations of Out Migrating Elderly Iowans

To obtain a better understanding of where the older Iowans that are leaving the State are migrating to an analysis was made of taxpayers ages 55 years and older that moved out of Iowa during the years 2001 through 2003. To complete this analysis tax returns for each of the three years were matched back to the prior year to identify taxpayers that migrated out of Iowa. Also, the new state of residence was identified for each out migrating taxpayer. In addition, information was compiled on which states have an individual income tax and regarding how each state taxes social security and pension income.

Over the three years 2,627 taxpayers ages 55 to 64 and 2,445 taxpayers ages 65 years and older moved out of the Iowa. As the following chart shows, 1,211 (23.9 %) of these taxpayers moved to states that do not have a personal income tax (PIT). 3,308 (65.2%) moved to states that exempt social security income from taxation and 1,803 (35.6%) move to state that exempt pension income from taxation. A summary of migration statistics and state tax law characteristics is presented in Table 3A in the appendix to this report.



Factors other than those related to a state's tax laws also may be expected to influence individual relocation decisions. As the following chart indicates, proximity to Iowa appears to have been an important factor in determining where retirement age Iowan move. Approximately 45.0 percent of taxpayer that moved out of Iowa



between 2001 and 2003 settled in other Midwestern states. In some cases the tax treatment of social security and pension income may have also factored into the relocation decisions of specific individuals. For example, 174 taxpayers moved to South Dakota, which does not have an individual income tax, and 475 taxpayers moved to Illinois, which exempts social security and pension income from taxation and taxes other income at only a 3.0 percent flat rate. On the other hand, 360 taxpayers moved to Minnesota, 370 moved to Missouri, 330 moved to Nebraska, and 220 moved to Wisconsin, all of which tax social security and pension income in a manner similar to the way Iowa taxes these source of income.

Various other factors, such as weather, proximity to children and other relatives and friends, availability of recreational opportunities, and the existence of retirement communities, most likely also influence people's relocation decisions when they reach retirement age. To more precisely gauge the importance of state tax policy as a deciding factor compared to other factors regression analysis was used to measure the relative importance of three tax policy variables (i.e., existence of a personal income tax, taxation of social security income, and taxation of pension income) and two other variables (i.e., whether the destination state bordered Iowa and average temperature for the destination state).

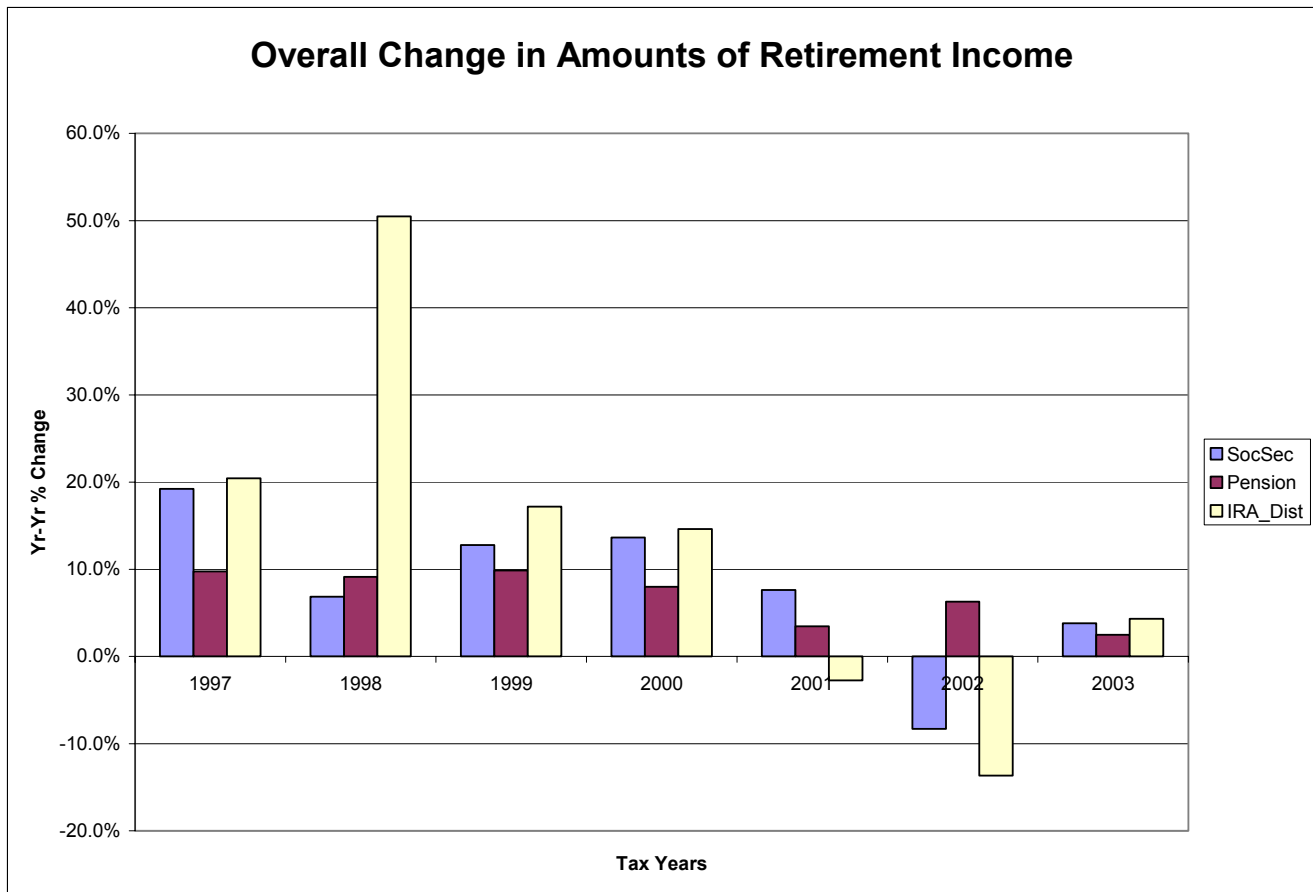
The regression analysis found that the destination state decisions of those Iowa taxpayers that left the state between 2001 and 2003 were so varied that all five factors combined explained only about half the variation among these relocation decisions. The most statistically significant of the factors in explaining the states to which these people moved were whether or not the destination state bordered Iowa and the average temperature of the destination state. The regression analysis found that on average 255 more Iowa taxpayers moved to border states than to non-border states. Similarly, the regression found that for each one degree increase in average temperature about seven more taxpayers moved to a particular state. None of the three tax policy variables were found to be statistically significant. The non-significance of the tax policy variables was the same regardless of whether they were tested on a combined basis or individually. The actual results of the regression analysis are presented in Table 4A in the appendix to this report.

## Year-to-Year Variation in Retirement and Other Income

At most only half of a taxpayer's social security income is subject to Iowa's individual income tax. Often less than half of social security income is subject to tax because married couples must have over \$32,000 and other taxpayers over \$25,000 of "provisional income" before any social security income becomes subject to tax. Consequently, the amount of social security income that is subject to tax each year varies not only due to variation in this source of income, but also due to variation in other sources of income.

Similarly, Iowa provides a \$12,000 exclusion for pension and other retirement income for married taxpayers and a \$6,000 exclusion for non-married taxpayers. Thus, the amount of income earned from other sources can affect the marginal rate at which pension income and other retirement income is taxed. Furthermore, since pensions and IRA-type investment portfolios are often at least partially comprised of stocks, year-to-year variation in stock market rates of return can significantly impact the amount of tax revenue generated from these income sources.

As the following chart shows over the years from 1997 through 2003 the three major sources of retirement income subject to tax (i.e., social security benefits, pension and annuity payments, and IRA-type distributions) have experienced considerable variation in their year-to-year rates of change.



As the chart shows, the rates of growth for the taxable amounts all three sources of retirement income experienced significant declines from the last few years of the 1990s to the years 2001 through 2003. This variation can be attributable to at least three factors:

- to decreases in other sources of income resulting in fewer retirees having to file tax returns and to a smaller share of social security income being subject to tax,
- to lower rates of returns on IRA-type and some pension fund investments, and
- to lower annual cost of living adjustments.

Table 5A in the appendix provides information for all major sources of income for tax years 2000 through 2003. This table presents average earnings by age group by income source. The year-to-year variation experienced by many of the revenue sources illustrates the difficulty of trying to estimate the fiscal impact of proposed law changes related to source of retirement income. Furthermore, both the above chart and the table show that the years 2001 through 2003 were atypical in terms of growth for most investment and retirement sources of income.

## The Elderly as Consumers

One argument offered in support of legislation to reduce the individual income tax burden on retirees is that this group of individuals spends a great deal on consumer purchases, and thus, some of the lost individual income tax revenue would be recovered as increased sales tax revenue. Information specific to the spending habits of lowans does not exist. However, each year the U.S. Department of Labor conducts a Consumer Expenditure Survey. This survey collects information on over 100 categories of purchases, as well as other types of uses of household income, such as savings and taxes. One of the published reports based on this survey presents the household expenditure information by age group. Using the information contained in this report it is possible to estimate how much sales tax lowans of different ages pay per year.

As Table 5 shows, for the nation as a whole income and expenditures peak with the 45 to 54 age group. Nationally this group has an average household before tax income of \$70,434, of which \$52,764 (74.9%) was spent, and of those expenditures \$21,056 (39.9%) went for items that would be subject to Iowa sales tax.

**Table 5: Taxable Expenditures by Age**

Expenditure Category	Age Groups							
	Under 25	25 - 34	35 - 44	45 - 54	55 - 64	65 +	65 - 74	75 +
Food Away from Home	\$1,862	\$2,550	\$2,855	\$2,955	\$2,524	\$1,484	\$1,822	\$1,138
Alcoholic Beverages	503	522	535	502	457	261	329	190
Household Operations	269	915	992	693	645	694	522	861
Home Maintenance	80	301	444	606	699	622	642	603
Laundry & Cleaning Supplies	75	142	170	188	158	111	122	100
Other Household Products	114	223	339	385	318	248	285	210
Stationery & Paper Products	32	67	85	92	91	75	81	68
Other Lodging	244	227	381	710	743	414	527	303
Telephone Service	642	1,028	1,145	1,178	1,040	695	815	579
Water and Other Public Services	101	275	375	381	367	323	353	294
Home Furnishings and Equipment	812	1,549	1,959	1,990	1,932	1,147	1,395	902
Apparel & Related Services	1,371	2,134	2,142	2,216	1,862	907	1,201	605
Motor and Other Vehicle Purchases	2,035	4,033	4,190	3,791	3,616	1,966	2,821	1,133
Motor Vehicle Maintenance and Repair	400	602	687	838	742	490	585	398
Entertainment	1,098	2,018	2,338	2,544	2,669	1,339	1,763	925
Personal Care Products & Services	334	552	660	690	628	468	514	421
Bookings & Other Reading Material	51	94	123	149	177	146	158	135
Tobacco Products	236	283	350	375	301	147	197	98
Miscellaneous	297	600	773	774	825	641	735	547
Household Income (US)	\$22,840	\$52,484	\$65,515	\$70,434	\$61,031	\$34,988	\$42,137	\$28,028
Household Income (IA)	\$12,122	\$37,310	\$52,901	\$61,426	\$59,491	\$37,226	\$41,606	\$32,736
Taxable Purchases (US)	\$10,555	\$18,115	\$20,542	\$21,056	\$19,793	\$12,177	\$14,867	\$9,509
Total Expenditures (US)	\$24,535	\$42,701	\$50,402	\$52,764	\$47,299	\$31,104	\$36,512	\$25,763
Taxable Share	43.02%	42.42%	40.76%	39.91%	41.85%	39.15%	40.72%	36.91%
Taxable Purchases (IA)	5,602	12,877	16,587	18,363	19,294	12,956	14,679	11,106
State Sales Tax	280	644	829	918	965	648	734	555

Source:  
U.S. Bureau of Labor Statistics, Consumer Expenditure Survey, 2004

Above age 55 household incomes begin to show a significant decline. For the 55 to 64 age group average household income equals only \$61,031 and for those households over 75 years old average income drops to \$28,028. Also, over the full spectrum of ages the share of income spent on purchases that would be subject to

Iowa's sales tax exhibits a gradual but steady decrease. For those households headed by someone under age 25 the share of expenditures that would be subject to Iowa sales tax equals 43.0 percent. The share of purchases that would be taxable for households headed by someone over 75 years old is only 36.9 percent.

Although for households headed by someone over age 75 the average income in Iowa is about 17 percent over the national average, these households still only spend about \$11,100 per year on items subject to the State sales tax. These expenditures generate about \$555 per household in State sales tax for this age group. For households headed by someone over 65 years old, the amount of taxable purchases increases to about \$12,960, and the amount of State sales tax paid by these households averages about \$648 per year. In comparison, households headed by someone age 45 to 55 generate about \$918 each in sales tax.

Thus, one key question from a public policy perspective becomes does it make fiscal sense to change State tax laws in an effort to keep more retirees in Iowa. Or more simply, will such a proposal pay for itself? The answer is most certainly not.

## Summary of Findings

An obvious finding is that Iowa's population is aging and the rate at which it ages will begin accelerating in the very near future. Whereas during 2005 the annual rate of change for the number of Iowans over age 65 equaled only 0.18 percent, by the year 2011 the annual rate of change for this segment of the State's population is projected by the U.S. Census Bureau to increase to 2.24 percent. Another obvious finding is that some Iowans choose to leave the state when they reach retirement age. But over the years 2001 through 2003 the share of Iowa taxpayers ages 55 to 64 and ages 65 years and older that migrated out of Iowa equaled only 0.61 percent and 0.44 percent, respectively. Also, at the same time some retirement age individuals moved out of Iowa others moved into the State. Overall, the findings of the research presented in this paper do not support the contention that there is a mass exodus of retirees from Iowa. Furthermore, there is no compelling evidence that for those retirees that do leave that State tax policy is the predominant reason for their doing so. More specifically the major findings of the research reported in this paper are:

- A relatively small number of retirement age individuals leave Iowa each year.
- Of those that leave about 24 percent move to states with no individual income tax, about 65 percent move to states that do not tax social security benefits, and about 36 percent move to states that do not tax pension or other retirement income.
- However, when compared to other factors, such as climate and proximity to Iowa, no tax policy consideration was found to be statistically significant in explaining the states to which outmigrating taxpayers moved.
- Those retirement age individuals that move into Iowa have substantially higher incomes than those moving out of the state.
- Households headed by retirement age individuals generally exhibit a significant decrease in the amount of taxable purchases they make relative to households headed by working age individuals.

Probably the most important finding of this research is the fact that Iowa's population is getting older and within a few years will begin getting older at a much faster rate. This has significant fiscal implications both on the revenue side and the expenditure side of the State budget.

## **Appendices**

Table 1A: Iowa Population Projects

Table 2A: Projected Iowa Population Shares

Table 3A: Outmigrating Retirement Age Taxpayers, 2001 – 2003

Table 4A: Regression Analysis – Factors Influencing Destination Decisions for Outmigrants

Table 5A: Average Income by Source and by Age, 2000 – 2003

## Table 1A: Iowa Population Projections

Year	Population Older Than					State Total
	18Years	55 Years	62 Years	65 Years	75 Years	
2000	2,192,686	693,625	505,699	436,213	224,278	2,926,324
2004	2,243,391	730,621	508,450	434,999	231,515	2,964,689
2005	2,252,912	743,068	512,451	435,794	232,619	2,973,700
2006	2,262,393	756,347	516,155	437,270	233,500	2,982,331
2007	2,272,035	771,085	519,139	439,687	233,778	2,990,331
2008	2,281,978	785,693	523,427	443,595	233,600	2,997,608
2009	2,291,131	800,701	534,044	447,063	232,976	3,004,163
2010	2,298,851	816,755	544,765	449,887	233,311	3,009,907
2011	2,305,287	832,198	554,841	453,959	233,662	3,014,826
2012	2,310,184	847,760	566,037	464,119	233,950	3,018,988
2013	2,314,043	863,253	577,809	474,322	234,300	3,022,322
2014	2,317,049	878,028	590,932	483,907	234,974	3,024,770
2015	2,319,340	893,814	603,874	494,565	235,916	3,026,380
2016	2,321,042	908,279	617,152	505,729	237,340	3,027,058
2017	2,322,587	921,317	631,377	518,212	239,609	3,026,831
2018	2,323,658	932,899	645,000	530,496	243,122	3,025,631
2019	2,323,967	943,409	658,685	543,087	246,265	3,023,507
2020	2,323,127	952,164	672,239	556,540	248,856	3,020,496
2021	2,321,746	958,278	685,052	569,367	252,456	3,016,578
2022	2,319,860	962,956	698,733	582,163	260,981	3,011,877
2023	2,317,550	966,941	711,103	594,752	269,381	3,006,420
2024	2,314,789	971,768	722,018	606,581	277,144	3,000,209
2025	2,311,474	977,579	731,521	619,227	285,628	2,993,222
2026	2,308,038	983,028	740,035	630,621	294,405	2,986,028
2027	2,304,438	986,062	746,885	640,626	304,082	2,978,613
2028	2,300,542	986,973	751,270	649,291	313,461	2,970,959
2029	2,296,413	987,722	754,388	657,046	322,997	2,963,192
2030	2,291,871	990,050	756,900	663,186	333,096	2,955,172

Notes:

(1) Year 2000 values are from the 2000 U.S. Census.

(2) Projections Source: U.S. Census Bureau, Population Division, Interim Population Projections 2005, File 3

## Table 2A: Projected Iowa Population Shares

Year	Share of Population Older Than					State Total
	18Years	55 Years	62 Years	65 Years	75 Years	
2000	74.9%	23.7%	17.3%	14.9%	7.7%	100.0%
2004	75.7%	24.6%	17.2%	14.7%	7.8%	100.0%
2005	75.8%	25.0%	17.2%	14.7%	7.8%	100.0%
2006	75.9%	25.4%	17.3%	14.7%	7.8%	100.0%
2007	76.0%	25.8%	17.4%	14.7%	7.8%	100.0%
2008	76.1%	26.2%	17.5%	14.8%	7.8%	100.0%
2009	76.3%	26.7%	17.8%	14.9%	7.8%	100.0%
2010	76.4%	27.1%	18.1%	14.9%	7.8%	100.0%
2011	76.5%	27.6%	18.4%	15.1%	7.8%	100.0%
2012	76.5%	28.1%	18.7%	15.4%	7.7%	100.0%
2013	76.6%	28.6%	19.1%	15.7%	7.8%	100.0%
2014	76.6%	29.0%	19.5%	16.0%	7.8%	100.0%
2015	76.6%	29.5%	20.0%	16.3%	7.8%	100.0%
2016	76.7%	30.0%	20.4%	16.7%	7.8%	100.0%
2017	76.7%	30.4%	20.9%	17.1%	7.9%	100.0%
2018	76.8%	30.8%	21.3%	17.5%	8.0%	100.0%
2019	76.9%	31.2%	21.8%	18.0%	8.1%	100.0%
2020	76.9%	31.5%	22.3%	18.4%	8.2%	100.0%
2021	77.0%	31.8%	22.7%	18.9%	8.4%	100.0%
2022	77.0%	32.0%	23.2%	19.3%	8.7%	100.0%
2023	77.1%	32.2%	23.7%	19.8%	9.0%	100.0%
2024	77.2%	32.4%	24.1%	20.2%	9.2%	100.0%
2025	77.2%	32.7%	24.4%	20.7%	9.5%	100.0%
2026	77.3%	32.9%	24.8%	21.1%	9.9%	100.0%
2027	77.4%	33.1%	25.1%	21.5%	10.2%	100.0%
2028	77.4%	33.2%	25.3%	21.9%	10.6%	100.0%
2029	77.5%	33.3%	25.5%	22.2%	10.9%	100.0%
2030	77.6%	33.5%	25.6%	22.4%	11.3%	100.0%

Notes:

(1) Year 2000 values are from the 2000 U.S. Census.

(2) Projections Source: U.S. Census Bureau, Population Division, Interim Population Projections 2005, File 3



Table 3A: Out-Migrating Retirement Age Taxpayers, 2001 - 2003

State Name	State Code	Out-Migrants		Income Tax	Social Security			Pension income		
		Age 55 - 64	Age 65+		Exempt	Federal Rule	Other	Exempt	Fully Taxable	Exclusions
Alaska	AK	8	3	No	x			x		
Alabama	AL	22	10	Yes	x				x	
Arkansas	AR	83	51	Yes	x				x	
Arizona	AZ	205	275	Yes	x					\$6,000
California	CA	89	108	Yes	x				x	
Colorado	CO	91	119	Yes			x			\$20,000/\$24,000
Connecticut	CT	5	6	Yes					x	
District of Columbia	DC	1	1	Yes	x				x	
Delaware	DE	3	2	Yes	x					\$2,000/\$12,500
Florida	FL	251	224	No	x			x		
Georgia	GA	33	27	Yes	x					\$15,000
Hawaii	HI	9	3	Yes	x				x	
Idaho	ID	12	12	Yes	x				x	
Illinois	IL	250	225	Yes	x			x		
Indiana	IN	32	42	Yes	x				x	
Kansas	KS	70	63	Yes		x			x	
Kentucky	KY	18	19	Yes	x					up to \$39,000
Louisiana	LA	16	4	Yes	x					\$6,000
Massachusetts	MA	7	11	Yes	x				x	
Maryland	MD	9	9	Yes	x					\$19,900 (less SS and RRB)
Maine	ME	5	7	Yes	x					\$6,000 (less SS and RRB)
Michigan	MI	34	27	Yes	x					\$37,710/\$74,420
Minnesota	MN	158	202	Yes		x			x	
Missouri	MO	227	143	Yes		x				\$6,000
Mississippi	MS	13	6	Yes	x			x		
Montana	MT	16	13	Yes			x			\$3,600
North Carolina	NC	36	22	Yes	x					\$2,000
North Dakota	ND	12	2	Yes		x			x	
Nebraska	NE	159	171	Yes		x			x	
New Hampshire	NH	2	1	No*	x			x		
New Jersey	NJ	11	5	Yes	x					\$15,000/\$20,000
New Mexico	NM	32	18	Yes		x			x	
Nevada	NV	58	29	No	x			x		
New York	NY	15	15	Yes	x					\$20,000
Ohio	OH	36	35	Yes	x					\$200 credit \$
Oklahoma	OK	30	29	Yes	x			x		
Oregon	OR	22	27	Yes	x					9% credit
Pennsylvania	PA	26	13	Yes	x			x		
Rhode Island	RI	2	1	Yes		x			x	
South Carolina	SC	22	16	Yes	x					\$3,000/\$10,000
South Dakota	SD	109	65	No	x			x		
Tennessee	TN	22	18	No*	x			x		
Texas	TX	159	172	No	x			x		
Utah	UT	13	16	Yes			x			\$4,800/\$7,500
Virginia	VA	27	30	Yes	x				x	
Vermont	VT	0	1	Yes		x			x	
Washington	WA	37	31	No	x			x		
Wisconsin	WI	113	107	Yes			x		x	
West Virginia	WV	4	0	Yes		x			x	
Wyoming	WY	13	9	No	x			x		
All		2,627	2,445		36	9	5	13	19	19
Iowa	IA	431,558	551,472	Yes			x			\$6,000/\$12,000
Share Out-Migrating		0.61%	0.44%							

Notes:

(1) Age is as of the year 2003.

(2) Sources: AARP Public Policy Institute, "State Taxation of Social Security and Pensions in 2000";

Wisconsin Legislative Fiscal Bureau, "Individual Income Tax Provisions in the States", January 2005

(3) SS denotes social security payments and RRB denotes railroad retirement board payments.

**Table 4A-1: Regression Analysis  
Factors Influencing Destination State Decisions**

Dependent Variable: Number of Taxpayers Years 2001 - 2003 Migrating to a State

<i>Regression Statistics</i>	
Multiple R	0.71853
R Square	0.51628
Adjusted R Square	0.46131
Standard Error	99.87913
Observations	50

ANOVA					
	<i>df</i>	<i>SS</i>	<i>MS</i>	<i>F</i>	<i>Significance F</i>
Regression	5	468481.31199	93696.26240	9.39232	0.00000
Residual	44	438937.00801	9975.84109		
Total	49	907418.32000			

	<i>Coefficients</i>	<i>Standard Error</i>	<i>t Stat</i>	<i>P-value</i>
Intercept	-268.36300	106.21013	-2.52672	0.01518
PIT	-44.08546	60.70796	-0.72619	0.47157
SS_X	27.34796	39.96582	0.68428	0.49738
PEN_X	-27.15623	55.29193	-0.49114	0.62577
MTEMP	6.94077	1.85647	3.73869	0.00053
BORDER	255.13274	45.60108	5.59488	0.00000

Notes:

PIT denotes a state personal income tax (Yes = 1, No = 0)

SS\_X denotes a state taxes social security benefits (Yes = 1, No = 0)

PEN\_X denotes a state taxes pension and IRA-type income (Yes = 1, No = 0)

MTEMP denotes the average high temperature for a state

BORDER denotes the destination state is a border state for Iowa (Yes = 1, No = 0)

**Table 4A-2: Regression Analysis  
Factors Influencing Destination State Decisions**

Dependent Variable: Number of Taxpayers Years 2001 - 2003 Migrating to a State

<i>Regression Statistics</i>	
Multiple R	0.71420
R Square	0.51009
Adjusted R Square	0.47813
Standard Error	98.30717
Observations	50

ANOVA

	<i>df</i>	<i>SS</i>	<i>MS</i>	<i>F</i>	<i>Significance F</i>
Regression	3	462860.57336	154286.85779	15.96462	0.00000
Residual	46	444557.74664	9664.29884		
Total	49	907418.32000			

	<i>Coefficients</i>	<i>Standard Error</i>	<i>t Stat</i>	<i>P-value</i>
Intercept	-248.79533	99.11276	-2.51023	0.01565
PIT	-59.15275	36.32400	-1.62848	0.11025
MTEMP	6.55174	1.70911	3.83341	0.00038
BORDER	267.97986	41.52099	6.45408	0.00000

Notes:

PIT denotes a state personal income tax (Yes = 1, No = 0)

MTEMP denotes the average high temperature for a state

BORDER denotes the destination state is a border state for Iowa (Yes = 1, No = 0)

**Table 4A-3: Regression Analysis  
Factors Influencing Destination State Decisions**

Dependent Variable: Number of Taxpayers Years 2001 - 2003 Migrating to a State

<i>Regression Statistics</i>	
Multiple R	0.69415
R Square	0.48184
Adjusted R Square	0.44805
Standard Error	101.10088
Observations	50

ANOVA

	<i>df</i>	<i>SS</i>	<i>MS</i>	<i>F</i>	<i>Significance F</i>
Regression	3	437234.50359	145744.83453	14.25881	0.00000
Residual	46	470183.81641	10221.38731		
Total	49	907418.32000			

	<i>Coefficients</i>	<i>Standard Error</i>	<i>t Stat</i>	<i>P-value</i>
Intercept	-284.18768	107.07118	-2.65419	0.01088
SS_X	-0.62420	36.41105	-0.01714	0.98640
MTEMP	6.32632	1.84487	3.42915	0.00129
BORDER	264.33474	45.12290	5.85811	0.00000

Notes:

SS\_X denotes a state taxes social security benefits (Yes = 1, No = 0)

MTEMP denotes the average high temperature for a state

BORDER denotes the destination state is a border state for Iowa (Yes = 1, No = 0)

**Table 4A-4: Regression Analysis  
Factors Influencing Destination State Decisions**

Dependent Variable: Number of Taxpayers Years 2001 - 2003 Migrating to a State

<i>Regression Statistics</i>	
Multiple R	0.71083
R Square	0.50528
Adjusted R Square	0.47302
Standard Error	98.78785
Observations	50

ANOVA					
	<i>df</i>	<i>SS</i>	<i>MS</i>	<i>F</i>	<i>Significance F</i>
Regression	3	458502.50858	152834.16953	15.66078	0.00000
Residual	46	448915.81142	9759.03938		
Total	49	907418.32000			

	<i>Coefficients</i>	<i>Standard Error</i>	<i>t Stat</i>	<i>P-value</i>
Intercept	-250.91220	99.76551	-2.51502	0.01546
PEN_X	-47.03703	31.86026	-1.47635	0.14666
MTEMP	6.35486	1.71236	3.71117	0.00056
BORDER	262.79104	41.66376	6.30742	0.00000

Notes:

PEN\_X denotes a state taxes pension and IRA-type income (Yes = 1, No = 0)

MTEMP denotes the average high temperature for a state

BORDER denotes the destination state is a border state for Iowa (Yes = 1, No = 0)

Table 5A: Average Income by Source and by Age, 2000 - 2003

Tax Year 2000 Returns														
Age	Number of Returns	Wages	Dividends	Taxable Interest	Capital Gains	Taxable Social Security	Taxable Pension	Taxable IRA Distributions	Passive Income	Business Income	Farm Income	Other Gains	Other Income	Total AGI
Under 25	243,432	10,406	97	116	314	1	27	10	74	95	-4	1	23	11,160
25 - 44	432,907	39,479	210	347	1,153	17	347	218	1,277	1,306	70	73	-28	44,468
45 - 54	217,497	49,556	794	1,182	2,827	79	789	420	3,257	2,605	77	124	30	61,739
55 - 64	137,687	36,332	1,343	2,266	4,583	781	4,957	1,264	3,873	2,339	450	181	139	58,506
65 - 74	99,198	8,979	2,178	4,416	5,281	4,718	9,014	3,408	4,659	968	119	227	21	43,987
75 - 84	66,192	1,905	3,598	7,834	6,520	4,346	7,747	2,660	4,831	246	95	133	-171	39,743
85 +	26,768	481	4,515	11,279	6,391	4,187	5,188	379	4,670	61	0	57	-204	37,005
Total	1,223,681	29,774	856	1,639	2,409	817	2,089	724	2,222	1,300	103	95	4	42,034

Tax Year 2001 Returns														
Age	Number of Returns	Wages	Dividends	Taxable Interest	Capital Gains	Taxable Social Security	Taxable Pension	Taxable IRA Distributions	Passive Income	Business Income	Farm Income	Other Gains	Other Income	Total AGI
Under 25	232,950	11,001	58	114	95	1	28	8	95	103	-12	3	21	11,517
25 - 44	430,393	40,374	143	327	410	18	344	192	1,229	1,310	-61	73	-33	44,326
45 - 54	223,017	50,060	554	1,091	1,554	87	792	417	3,202	2,186	-84	115	14	59,989
55 - 64	143,186	37,443	996	2,230	2,317	798	4,996	1,275	3,920	2,382	111	164	45	56,678
65 - 74	99,287	9,681	1,762	4,475	3,114	4,862	9,440	3,201	4,417	940	9	208	-146	41,965
75 - 84	67,027	2,030	3,103	8,041	3,058	4,273	8,050	2,677	4,869	243	1	18	-115	36,248
85 +	27,711	466	3,972	11,489	3,984	4,159	5,424	431	4,582	39	-46	35	-235	34,301
Total	1,223,571	30,709	682	1,661	1,227	839	2,185	710	2,222	1,248	-26	85	-23	41,519

Tax Year 2002 Returns														
Age	Number of Returns	Wages	Dividends	Taxable Interest	Capital Gains	Taxable Social Security	Taxable Pension	Taxable IRA Distributions	Passive Income	Business Income	Farm Income	Other Gains	Other Income	Total AGI
Under 25	215,033	11,393	46	87	5	1	29	7	116	107	-18	2	26	11,802
25 - 44	422,465	40,996	109	229	411	19	338	126	1,282	1,191	-188	57	-76	44,495
45 - 54	224,712	50,695	451	791	1,112	91	823	298	3,291	2,501	-350	103	-112	59,694
55 - 64	149,486	38,431	843	1,668	2,433	794	5,460	1,070	3,824	2,382	-169	145	11	56,892
65 - 74	99,107	10,099	1,484	3,408	2,185	4,777	9,767	2,796	4,513	1,003	-205	207	-161	39,872
75 - 84	67,893	2,134	2,659	6,311	2,390	3,893	8,300	2,537	4,895	268	-81	97	-163	33,240
85 +	27,783	476	3,827	9,226	3,784	3,772	5,616	474	4,572	61	-37	35	-231	31,574
Total	1,206,479	31,551	595	1,297	1,055	820	2,352	617	2,308	1,296	-178	81	-69	41,724

Tax Year 2003 Returns														
Age	Number of Returns	Wages	Dividends	Taxable Interest	Capital Gains	Taxable Social Security	Taxable Pension	Taxable IRA Distributions	Passive Income	Business Income	Farm Income	Other Gains	Other Income	Total AGI
Under 25	213,379	11,715	49	74	24	1	28	7	80	120	-9	2	31	12,122
25 - 44	428,005	41,711	125	207	396	20	333	126	1,327	1,270	-65	69	-109	45,410
45 - 54	230,371	51,773	517	691	1,421	93	864	316	3,353	2,524	-60	137	-204	61,426
55 - 64	157,094	40,145	1,119	1,437	2,702	816	5,488	1,128	4,047	2,375	154	163	-82	59,491
65 - 74	100,119	10,704	1,588	2,861	2,794	4,968	9,828	2,814	4,762	1,023	149	255	-142	41,606
75 - 84	69,071	2,264	2,747	5,154	2,670	3,928	8,517	2,671	5,276	341	136	139	-257	33,586
85 +	28,601	468	3,798	7,782	2,859	3,759	6,035	599	5,525	30	64	45	-282	30,682
Total	1,226,640	32,469	666	1,104	1,200	843	2,409	643	2,439	1,345	5	101	-114	43,111