

# Arkansas Veterans Coalition

Workforce and Economic Development

July 2016



# Arkansas Veterans Coalition

representing 247 thousand Arkansas veterans  
and their families

**Departments of Arkansas or affiliates of national and  
local veteran service organizations**

ABATE of Arkansas

Air Force Association

American Legion

Arkansas County Veteran Service Officer  
Association

Arkansas Veterans Commission

Association of the U.S. Army

Black Veterans of America

Combat Veterans Motorcycle Assn

Disabled American Veterans

Enlisted Assn of Arkansas National Guard

Fleet Reserve Association

Little Rock AFB Green Knights

Marine Corps League

Military Officers Association of America

Military Order of the Purple Heart

Military Order of the World Wars

National Guard Association of Arkansas

Northwest Arkansas Veterans Coalition

Rolling Thunder, Arkansas

Special Forces Association

Student Veterans of America

United States Submarine Veterans

Veterans of Foreign Wars

Veterans Outreach Ministries

Vietnam Vets Legacy Motorcycle Club

# Raising Arkansas Family Prosperity

... depends on growing higher value work and employment opportunities. To succeed requires ...

- Pro growth economic policies and master plan
- High skilled, educated, experienced workforce
- Street level investment

# Raising Arkansas Family Prosperity

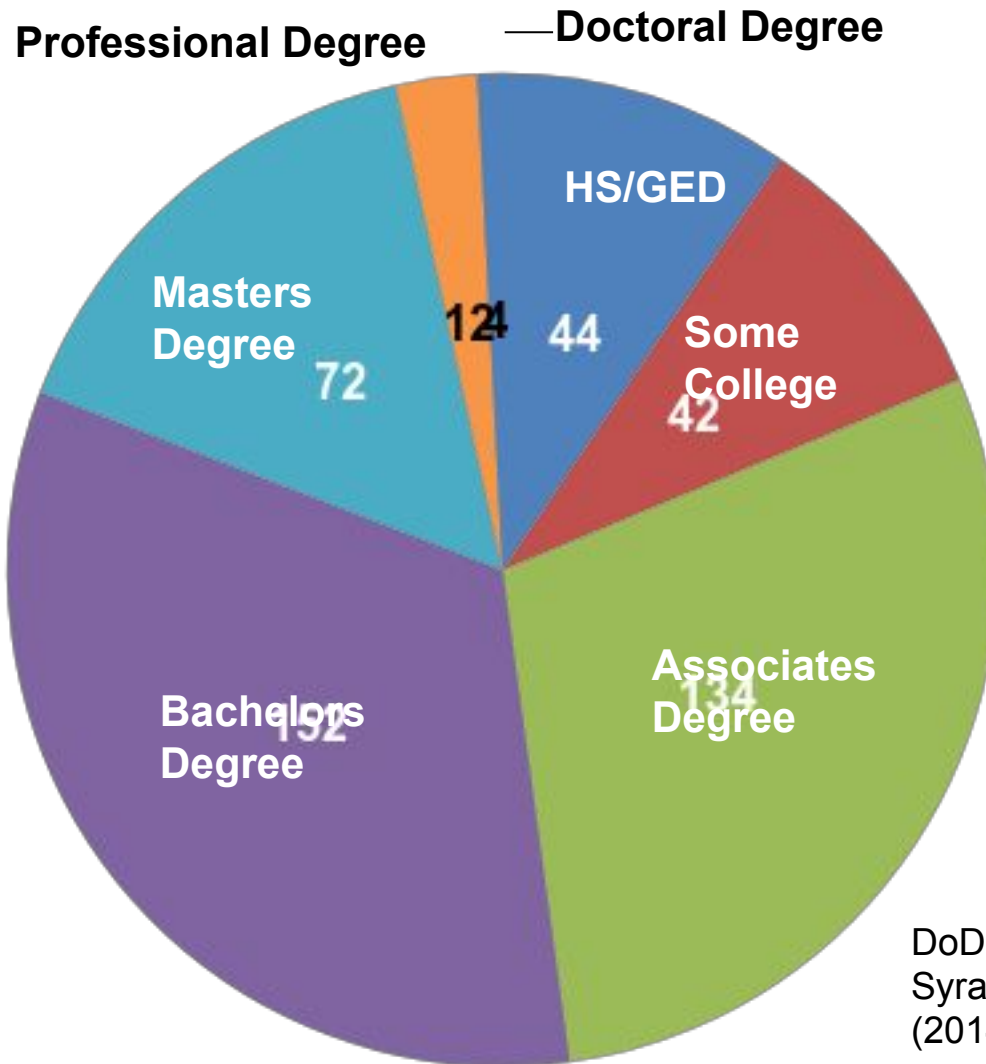
... depends on growing higher value work and employment opportunities. To succeed requires ...

- Pro growth economic policies and master plan
- High skilled, educated, experienced workforce
- Street level investment

**Retiring military can help – this is our sweet spot**

# Workforce Impact

This is what a 250 military retiree and their 210 spouse cohort brings to Arkansas...



... comes with **20+ years** leading on the toughest jobs both in the world ... and at home.

# Economic Impact

Each annual 250 military retiree cohort could bring \$400 million in new Fed money to Arkansas

	Present Value Retirement Pay	Fed Dollars to Arkansas over Next 40 Years
200 Senior Non-Commissioned Officers	\$1.3 million each	\$269 million
50 Senior Commissioned Officers	\$2.5 million each	\$128 million

1% Annual Growth Rate = 250 Retiree Cohort – brings \$400 million in new Fed dollars to Arkansas to be invested and consumed over next 40 years ... each year.

Coupled with their military retired pay ... each annual cohort's second career and spouse income could pump \$19 million into the Arkansas economy ... each cohort yielding over \$2 million in new general tax revenue

# Arkansas Veterans Coalition

## Summary 2015 Legislative Session Initiatives

- **Boost** workforce and economic development opportunities through state income tax exemption of uniformed services retired pay (**HB1412 & SB782 blocked in R&T committee**)
- ✓ **Extend** resident tuition rates beyond Arkansas and eliminate local residency prerequisites for instate moves to attract and retain service members, veterans and their families (**90<sup>th</sup> General Assembly, Act 1266**)
- **Ensure** statewide access to Veterans Treatment Courts (**lost Judicial Cncl spt w/Act 895 Criminal Justice Reform Act**)
- ✓ **Direct** programming, planning, operations and oversight of a veterans state home network based on projected needs of Arkansas' most at-risk veterans (**ADVA Strategic Goal**)

# Arkansas Lacks the Workforce to Become a Regional Economic Leader

## Shortfalls

- Arkansas State Chamber of Commerce leaders report that Arkansas businesses cannot fill 40 thousand technical, quality jobs we need to grow our economy.
  - Business will ignore Arkansas except to set up lower skill work centers and exit quickly when better options appear elsewhere
  - Arkansas business will make expansions elsewhere or relocate entire operations
- 2014 -- Arkansas ranks #49 in adults with college degrees
  - 6-year graduation rate for first-time students dropped below 40% -- going the wrong way if we are to double our degree holders by 2025
  - Yet we spend \$3.3 billion of the \$3.5 billion state income tax proceeds on Public Education



# Workforce and Economic Development Impact

## Objectives

- **Attract** and retain this skilled, disciplined and loyal workforce
- **Capitalize** on military retiree and other veterans' leadership experience, discipline, technical skills and entrepreneurial spirit
- **Strengthen** workforce mid and upper-talent pools up-shifting Arkansas attractiveness to emerging and growing industry needs

## Action

- **Market and recruit** a high STEM skilled and experienced workforce as a magnet to attract higher tech, higher yield business by eliminating barriers to workforce migration.
- **Eliminate** reasons veterans go elsewhere to launch their second career

# Military Retiree Profile

## Workforce Component

- **Typical:** 38 to 42 years old senior non-commissioned officer (E7 pay grade)
  - 20% officer and 80% enlisted mix earn on average \$24k\* mil pay annually
  - Each seek second employment plus spouse brings employable skills
- **Education:** higher percentage of associate, bachelor and advanced degrees than general population
- **Skills:** leadership, management, operations, engineering, technology, education and emergency services
- **Experience:** decision making in combat, team loyalty
- **Entrepreneurially inclined** – will create small businesses and jobs
  - **SBA:** *“prior military service is the single best indicator of entrepreneurial success”*
- **Military retirees “Continue to Serve”** as municipal, county and state leaders ... entrepreneurs ... teachers ... volunteers in schools and hospitals

\*Source: DoD pay tables 2015. Nationally enlisted retirees make up 75% of military retirees. Arkansas retired enlisted constitute 80%. Source: DoD 2015 Military Retirement System Statistical Report, p30.

# Military Retiree Profile

## Economic Impact Component

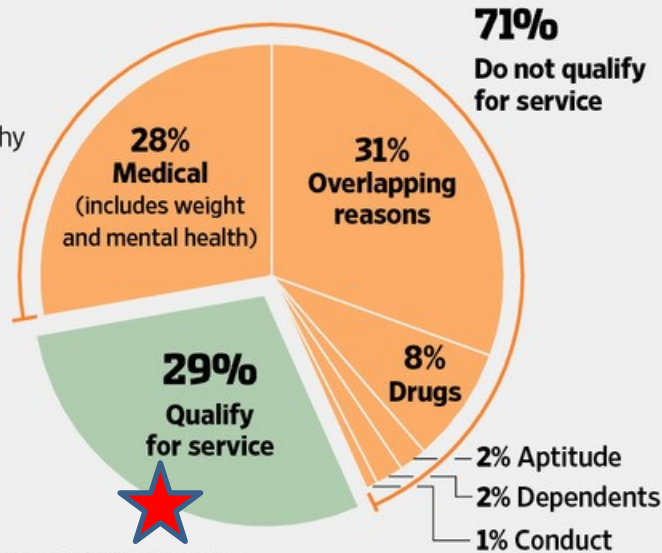
• **Military retirement pay as much as \$500 million annual investment in Arkansas economy -- IF THEY COME HOME or NON-RESIDENTS STAY**

- 6k Arkansans on active duty, less than 100 in Arkansas
- 600 retirement eligible, DoD estimates 30% retire/year
- Present value of 20 year retirement over 40 years life expectancy is COLA-protected \$300 mil for the 2016 cohort; LRAFB an additional \$200mil
- **Retirees + family covered by TriCare then later Medicare+Tricare for Life**
  - Under age 65 military retirees and dependents are covered by the military TRICARE health system.
  - Over age 65 military retirees and their dependents are covered by Medicare and the military TRICARE for Life health system.
- **GI Bill and other VA benefits** complement retirees military retired pay to increase their productivity and community value.

# Veterans Passed Rigorous DoD Screening

## Turned Away

Pentagon estimates for why 17- to 24-year-olds wouldn't qualify for the military, excluding cosmetic reasons.



Note: Figures don't add up to 100 due to rounding  
Source: Department of Defense, QMA Study 2013

## U.S. Army's enlistment requirements\*

- Between 17 (with parental consent) and 34 years of age
- Scored a minimum of 33 out of 99 on Armed Forces Qualification Test, which assesses English, math, science and cognitive skills
- No felony convictions
- No persistent illegal drug use
- No insulin-dependent diabetics
- Meet height/weight standards for age group
- U.S. citizen or foreign national with legal status
- No tattoos on fingers, neck or face
- No ear gauges
- No ADHD medication in past 12 months
- High school diploma or GED with some college credits

\*Doesn't include all requirements, and some can be waived at the Army's discretion.

The Wall Street Journal

- Over 2/3 of 17-34-year-olds wouldn't qualify for military service
- Attracting former military personnel to our workforce capitalizes on DoD's screen ... identifying the top 1/3 'cream of the crop'



Put your state workforce or your business recruiter right here ... at DoD's exit door.

# Arkansas Veterans Economic Impact

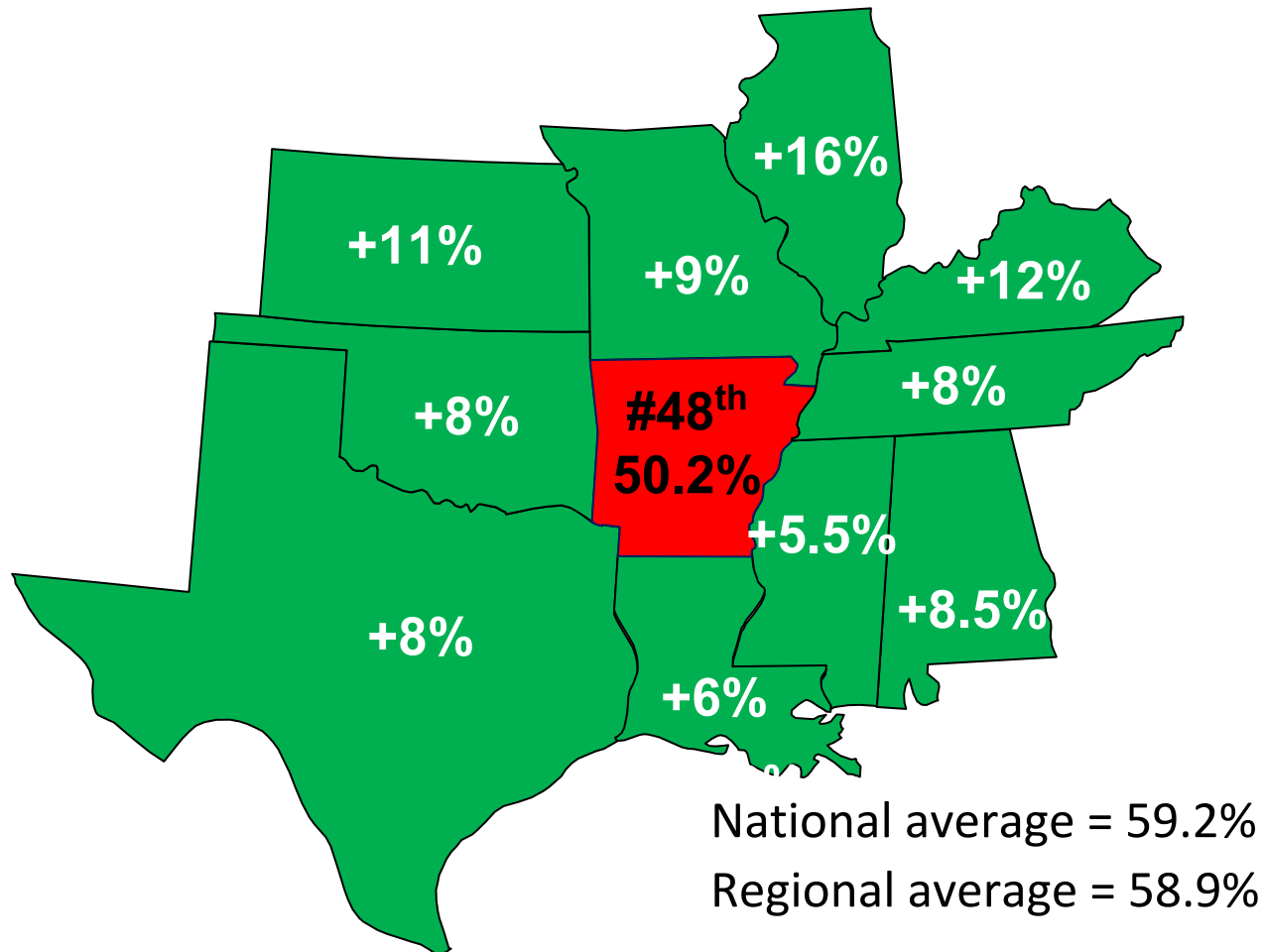
<b>Arkansas Veterans</b>		250,095
-- includes military retired		25,790
Total VA Expenditures		\$1.9 billion
Retired Pay		\$0.5 billion
		<hr/>
		<b>\$2.5 billion</b>
Second Career Income	<b>Dynamic economic analysis will define values based on Census and IMPLAN modeling</b>	Plus
Spouse Income		Plus
Tricare		Plus
Medicare		Plus
Social Security		Plus
<hr/>		
<b>Estimated Total Arkansas Economic Impact</b>		<b>\$4.5 to \$5 billion</b>
<b>Arkansas leading industries</b>		
Agriculture		\$17 billion
Wood and Paper Products		\$6.9 billion
Tourism		\$6.0 billion
<b>Veteran impact (as an industry)</b>		<b>\$4.5 – 5.0 billion</b>

# Arkansas Veterans by Component

Total	Active Duty	National Guard	Reserve
25,790	19,634	3,040	3,116
Working Age			
11,525	9,857	890	778

Total	Officers	Enlisted
25,790	5,151 (20%)	20,639 (80%)

# Arkansas lags every state in our region in our ability to attract working age active duty military retirees



# Our neighbors grew, we lost military retiree population

## Arkansans aren't coming home after serving



DoD-Paid Retiree Pop 2009 – 2015			Net DoD Retiree Change	Annual Rate of Change
	2009	2015		
Alabama	53,252	56,895	3,643	1.1%
Arkansas	<b>24,164</b>	<b>23,969</b>	<b>-195</b>	<b>-0.1%</b>
Illinois	33,017	33,874	857	0.4%
Kansas	19,844	20,566	722	0.6%
Kentucky	25,010	26,425	1,415	0.9%
Louisiana	23,972	24,456	484	0.3%
Mississippi	24,929	26,101	1,172	0.8%
Missouri	34,529	35,407	878	0.4%
Oklahoma	32,757	33,696	939	0.5%
Tennessee	48,650	51,540	2,890	1.0%
Texas	178,158	191,191	13,033	1.2%
<b>Total USA</b>	<b>1,904,230</b>	<b>1,982,184</b>	<b>77,954</b>	<b>1.0%</b>

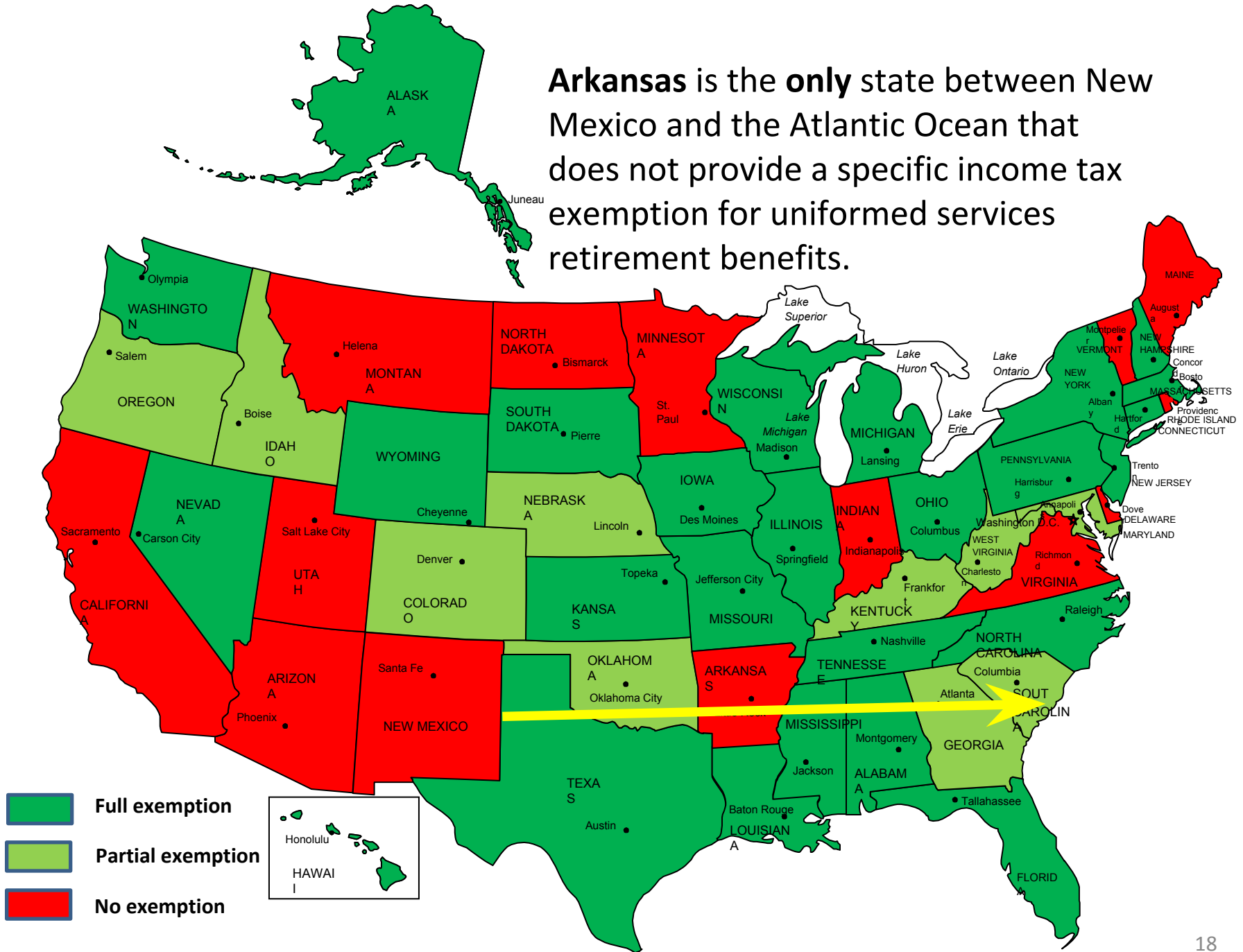


# Only 10 states experienced a net loss in DoD retirees since 2009, 6 tax their mil retired pay

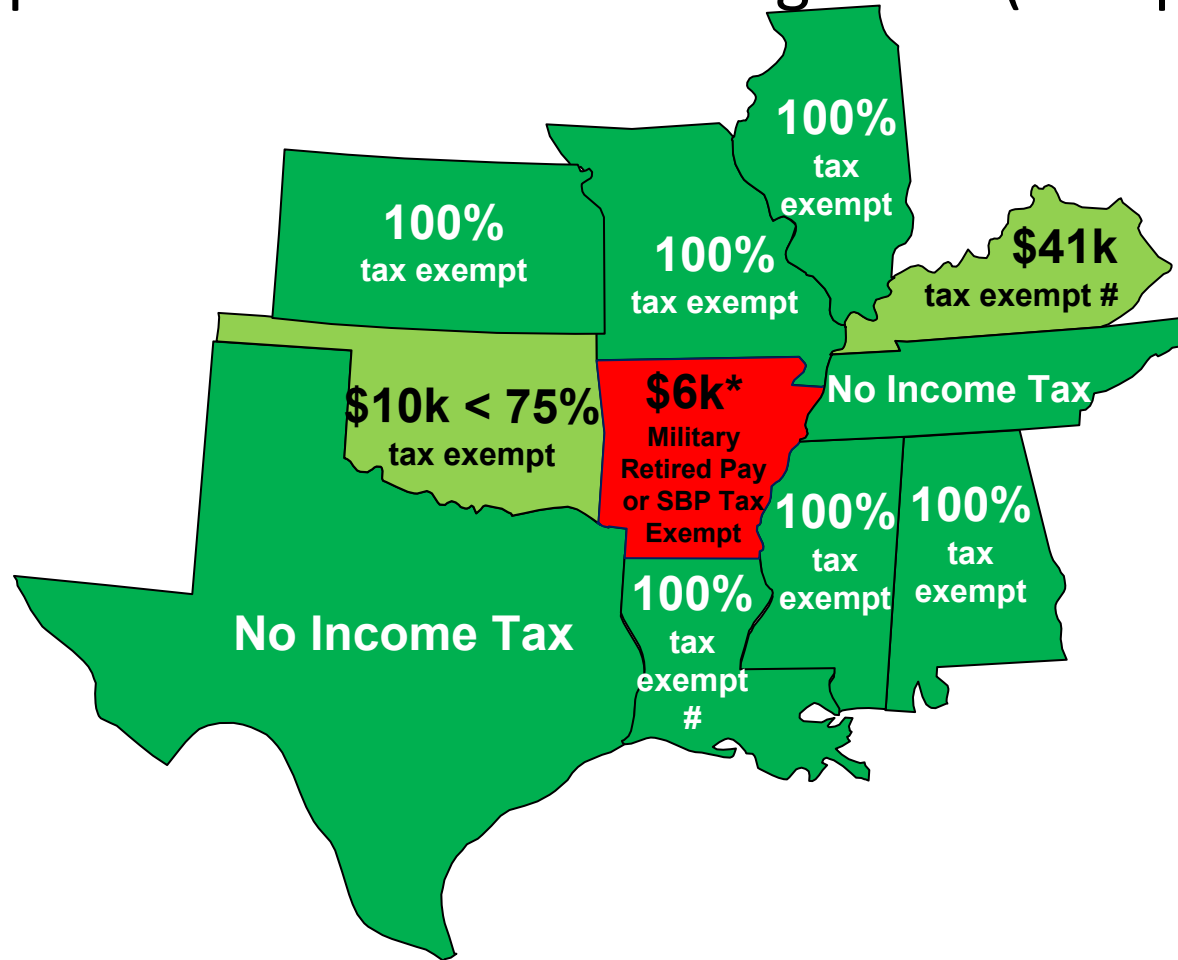
	National Rank Working Age Retirees	DoD Retiree Population Loss 2009- 2015	Fully Exempts Military Retired Pay
Connecticut	#31	-471	Yes (in 2015)
New Mexico	#38	-189	No
New Jersey	#41	-768	Yes
Maine	#44	-122	No
Massachusetts	#45	-546	Yes
Rhode Island	#46	-148	No
California	#47	-7705	No
Arkansas	#48	-195	No
New Hampshire	#49	-4	No income tax
Oregon	#50	-393	No

Lowest 7 ranked states based on the % active duty working age retiree population

Arkansas is the **only** state between New Mexico and the Atlantic Ocean that does not provide a specific income tax exemption for uniformed services retirement benefits.



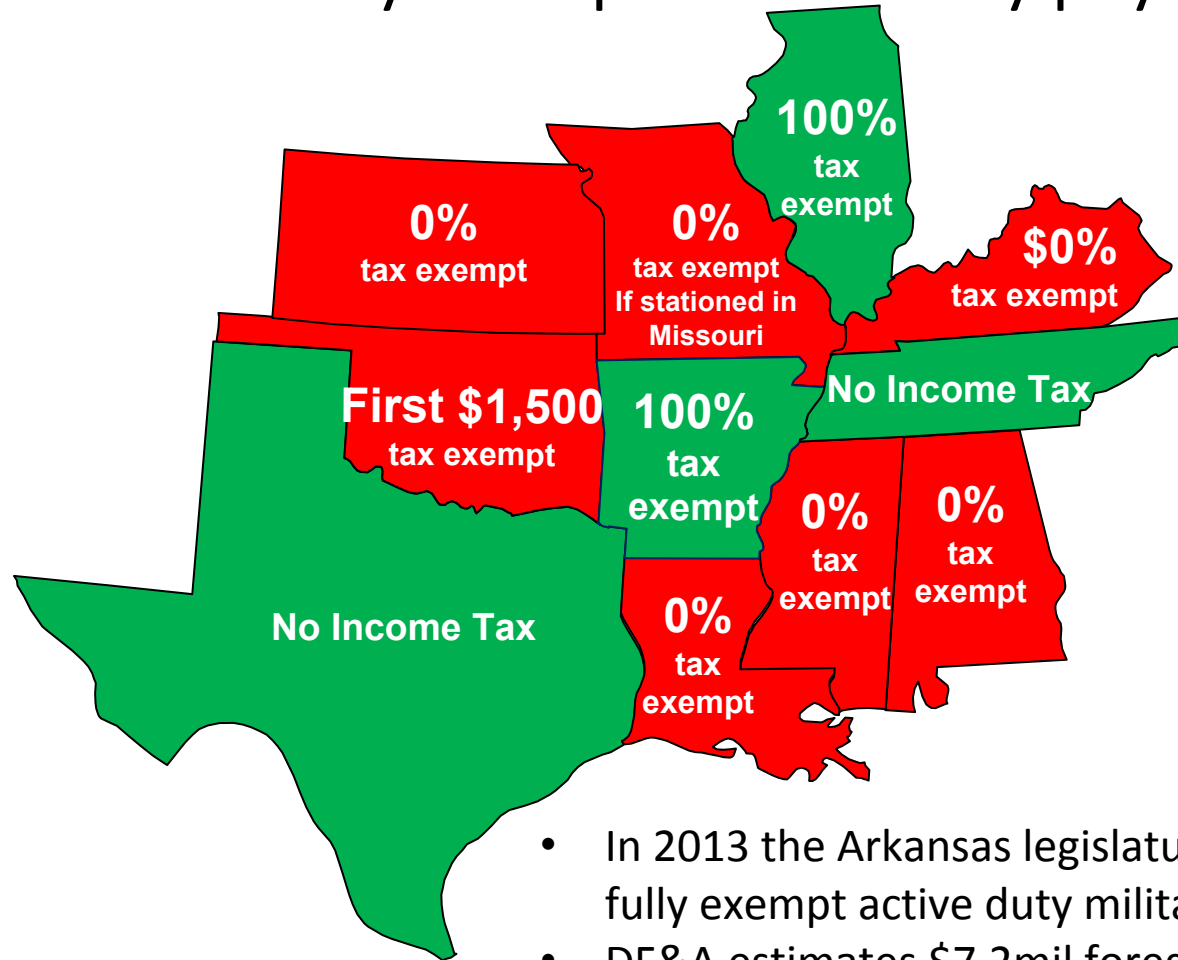
# Arkansas treats military retired pay and survivor benefit plan different than its neighbors (competitors)



# KY and LA do not exempt SBP. All other regional states exempt SBP like military retired pay

\* AR exempts \$6k of income from IRA or any private or public pension but does not provide specific exemption for military retired pay as do our neighbors

# Yet Arkansas only state in the region with an income tax that fully exempts active duty pay



- In 2013 the Arkansas legislature acted to fully exempt active duty military pay
- DF&A estimates \$7.2mil foregone revenue
- If Arkansans don't come home there is no opportunity to recoup that investment

# Arkansas Veterans Coalition Proposes

## Solve

- Address a portion of the skilled, experienced workforce shortfall by attracting and recruiting new military retirees and other veterans direct from DoD
- Take quality workforce away from the competition – other states

## How

- Attract new veterans by eliminating their reasons for not choosing Arkansas as where they want to start their second career
- Actively market and recruit experienced veteran talent through a program integrating promotion a Parks and Tourism-like model and higher education outreach.

# Arkansas Veterans Coalition

## 2015 Legislative Session Initiative

### **Boost workforce and economic development through state income tax exemption for military retired pay**

#### DISCUSSION:

- 25,790 military retirees earn \$550mil pension income annually plus 2<sup>nd</sup> career income, spousal income, Tricare, VA (GI Bill)
- Attract new retirees w/high STEM skills and leadership experience strengthening Arkansas workforce by eliminating #1 detractor

#### **Arkansas Veteran's Coalition proposes legislation**

- Fuel workforce and economic development by relieving uniformed service retirees military retired pay from state income tax.
- Offset foregone income tax revenue with new income and general tax revenue generated by new military retiree families.

# Arkansas Veterans Coalition

## *Boost workforce and economic development*

### Projected foregone income tax by exempting DoD military retired pay

- **Coalition projects \$9.9mil annual foregone tax revenue**
  - Excel tax calculation method developed by Coalition now used by DF&A
  - ITEP tax rates for 2015 – based on 2012 IRS return data incorporating AR tax changes for 2013 and 2014
- **DF&A projects \$13.0mil annual foregone tax revenue**
  - 2015 SB224 original estimate was \$15.9mil (SB224 became SB782)
  - Adjusted downward \$2.9mil when Coalition with DoD Actuary input determined DF&A incorrectly included concurrent receipt disability pay
  - DF&A effective tax rates based on 2009 tax return data based on existing 2007 state tax law with no updates for tax changes since then
- **DF&A previously projected \$16.8mil foregone tax revenue for 2013 SB577**
  - Lumped under and over 65yo retirees in same tax groups
  - Used 4.4% effective tax rate for all income groups ... the Top 1% rate

# Arkansas Veterans Coalition

## *Boost workforce and economic development*

### Projected new tax revenue calculation

- New tax revenue is a factor of the # of military retirees, # of employed spouses, expected employment incomes, tax on those second incomes and general tax revenue from after tax consumption spending
- **# military retired and # of employed spouses**
  - States in our region (excluding TX, TN, AR) grew by an average of 338 retirees/year or 1.1% (Arkansas lost 69 total over same period)
  - Arkansas has 25k mil retirees ... a **1% growth = 250** (within reach)
  - DoD demographics: 84% mil retired married, 65% spouses in labor force, 7.7% spouse unemployment rate
- **Expected incomes based on education**
  - DoD demo: 13% HS, 43% some college/AA, 30% BA/BS, 14% advanced
  - BLS and AR data project **average military retiree starts at \$48,734 and working spouse \$36,691**

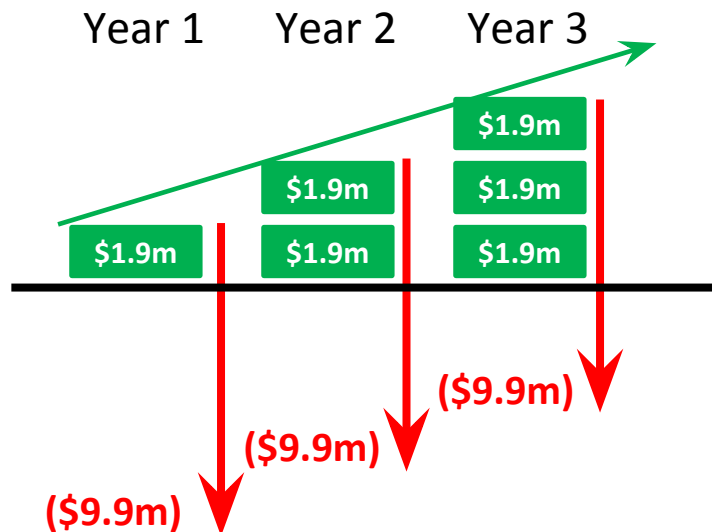


# Arkansas Veterans Coalition

## *Boost workforce and economic development*

### Projected new tax revenue calculation

- **Projected income tax** from 250mil ret + 126 employed spouses ...
  - \$622k from retiree and spouse employment
- **Plus projected general tax revenue** from \$19.0mil after tax consumption
  - \$1.3mil new general tax revenue



- Each annual 250 mil retiree family cohort contributes a **total additional \$1.9mil new tax revenue** ... offsetting the \$9.9mil in foregone tax

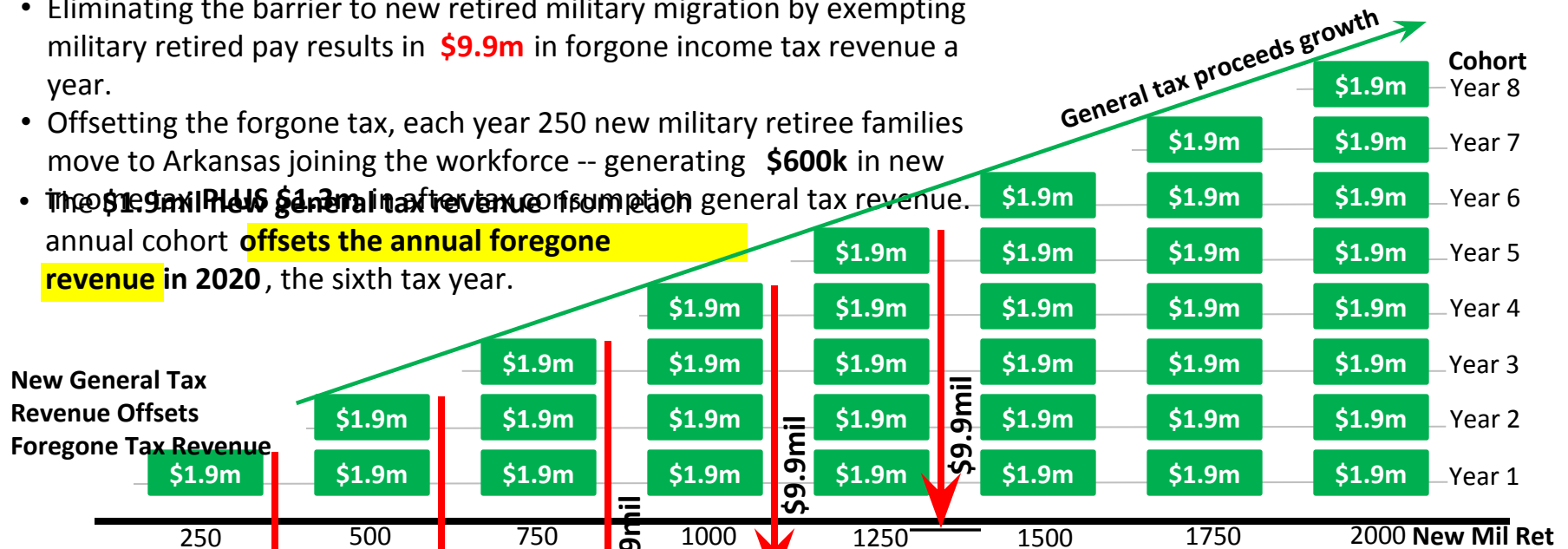
Annual \$9.9mil foregone tax revenue offset by an additional \$1.9mil new tax revenue results in annually lessening the net lost revenue impact

# Arkansas Veterans Coalition

## Boost workforce and economic development

Year 1    Year 2    Year 3    Year 4    Year 5    Year 6    Year 7    Year 8

- Eliminating the barrier to new retired military migration by exempting military retired pay results in **\$9.9m** in forgone income tax revenue a year.
- Offsetting the forgone tax, each year 250 new military retiree families move to Arkansas joining the workforce -- generating **\$600k** in new
- **The \$1.9m PLUS \$4.3m in after consumption general tax revenue offsets the annual foregone revenue in 2020**, the sixth tax year.



- Total forgone tax revenue of **(\$21.0m)** through Year t... is **fully repaid by Year 7.**
- **BONUS: Positive balance of \$3.7mil in Year 7 pays half the \$7.4mil active duty pay exemption; fully pays it in Year 8.**

Net	(\$8.0mil)	(\$6.1mil)	(\$4.2mil)	(\$2.3mil)	(\$0.4mil)	\$11.4mil	\$13.3mil	\$15.2mil
Total	(\$8.0mil)	(\$14.1mil)	(\$18.3mil)	(\$20.6mil)	(\$21.0mil)	(\$9.6mil)	\$3.7mil	\$18.9mil

# Boost workforce and economic development Action Plan

- Need Governor's direct sponsorship of the initiative and incorporation in his economic development planning within Revenue Stabilization Act.
- Need senior legislative coordination and budget planning within provisions established by the Legislative Council.
- **On enactment – to secure the benefit of legislation need active marketing and recruiting program targeting and attracting active duty personnel, military retirees and other veterans to Arkansas**
  - Elimination of state income tax liability on active duty pay (2013)
  - Expanded support for active duty, veteran and spouse licensure (2013/15)
  - Higher education in-state tuition eligibility to all active duty personnel, veterans within 3 years of leaving DoD and certain family members (2015)
  - Elimination of state income tax liability on military retired pay (tbd)