

Tax Treatment of Military Pension Income

Senate Interim Committee on Veterans, Emergency Management, Federal and World Affairs

11/18/2025



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

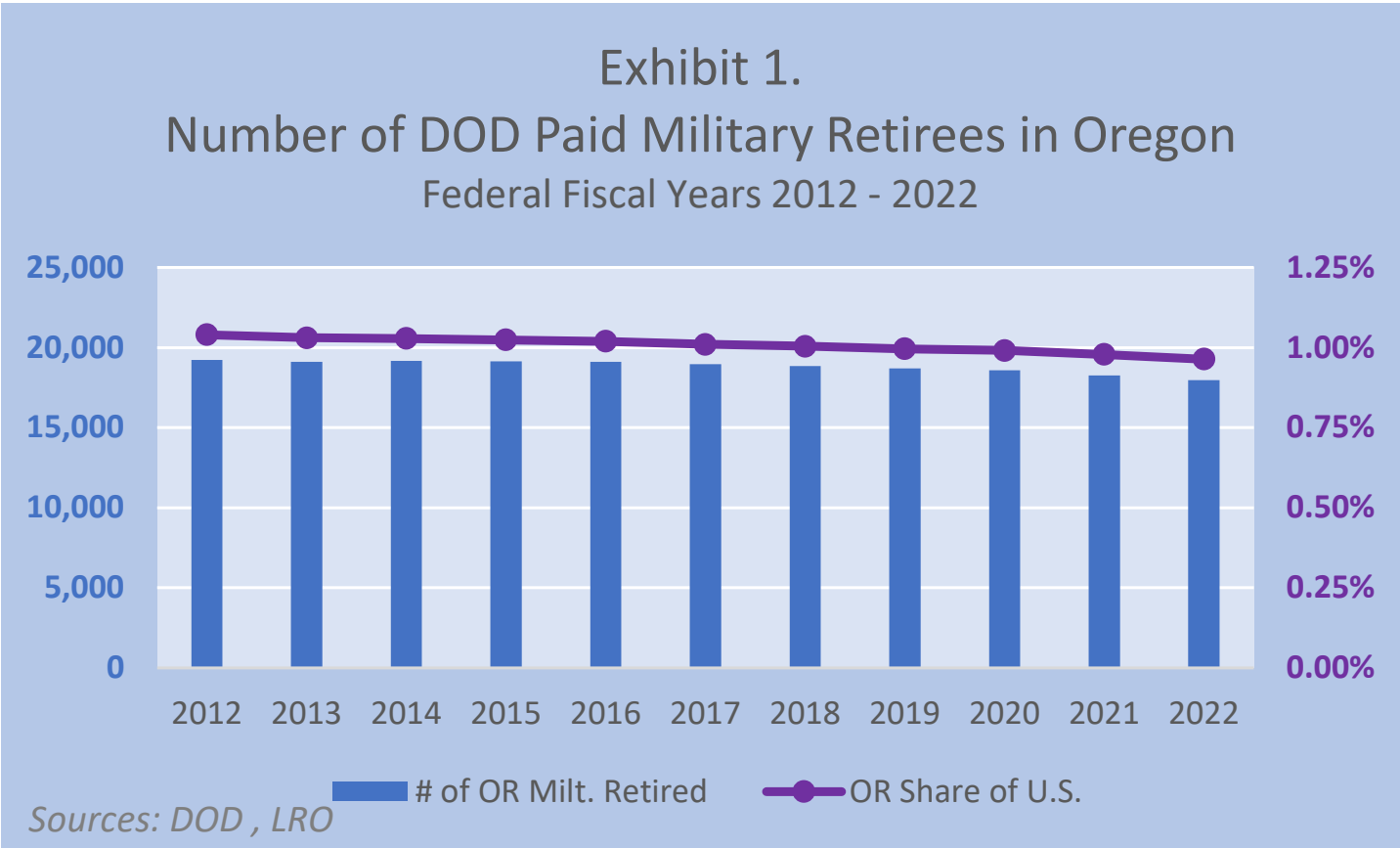
Active Duty Non-Disability

- 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

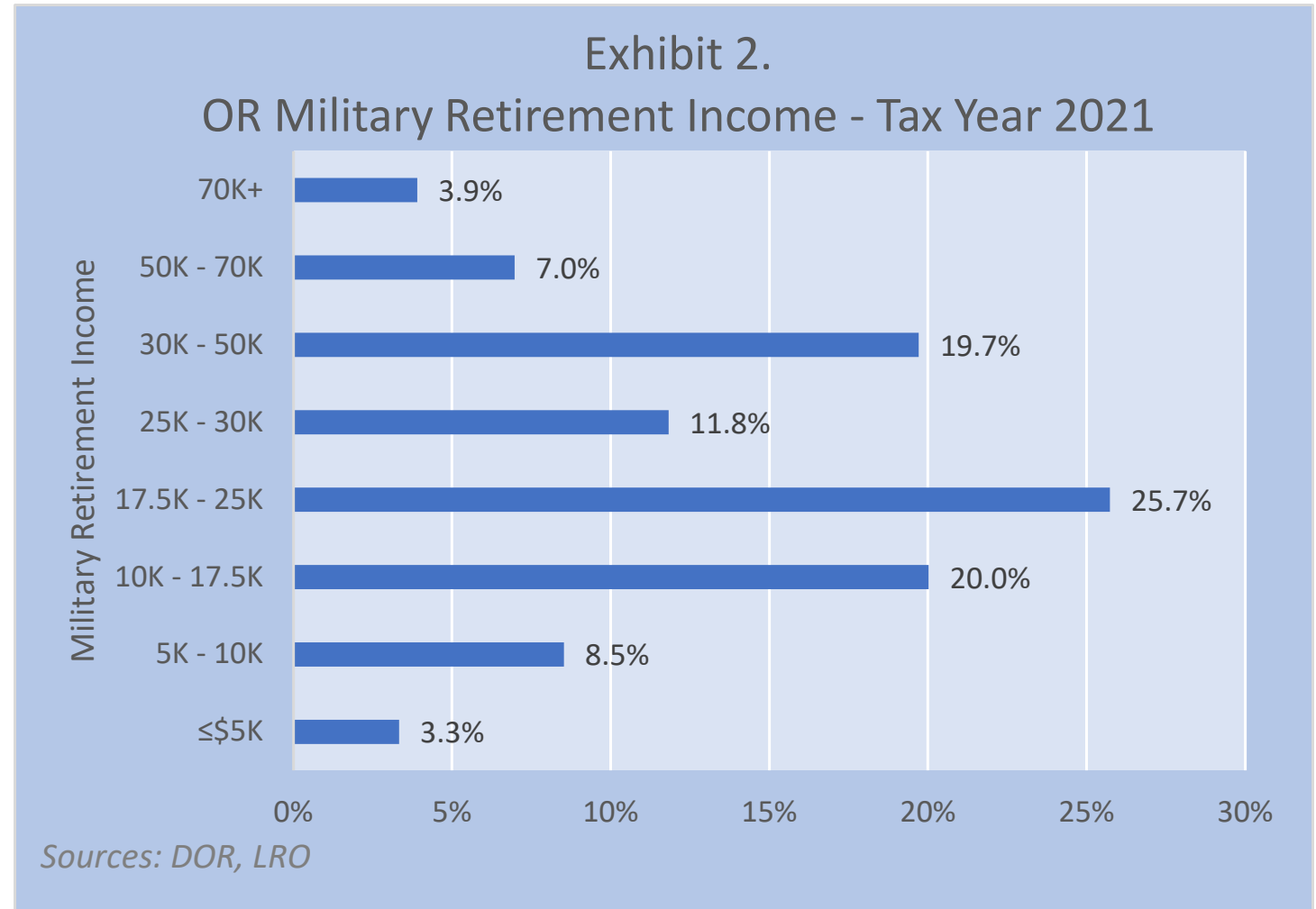
Number of Dept. of Defense Paid Military Retirees in Oregon



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

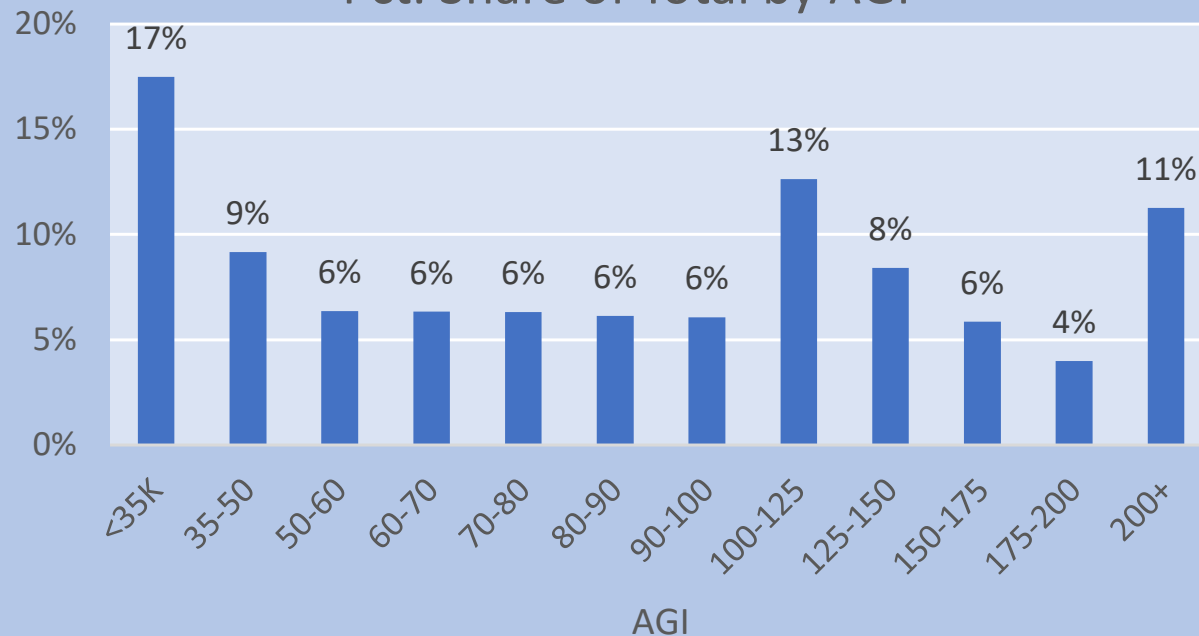
- Reflects amount of military retirement pay
- Includes amounts exempt from taxation under current law
- About 66% of taxpayers receiving military retirement pay claimed the pre-1991 employment exemption
 - About 50% of income was exempt
- Those under age 63, about 40% of taxpayers claimed tax exemption
 - 25% of income was exempt



Share of Military Retirement Income and Taxpayer's AGI

Exhibit 3a.

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

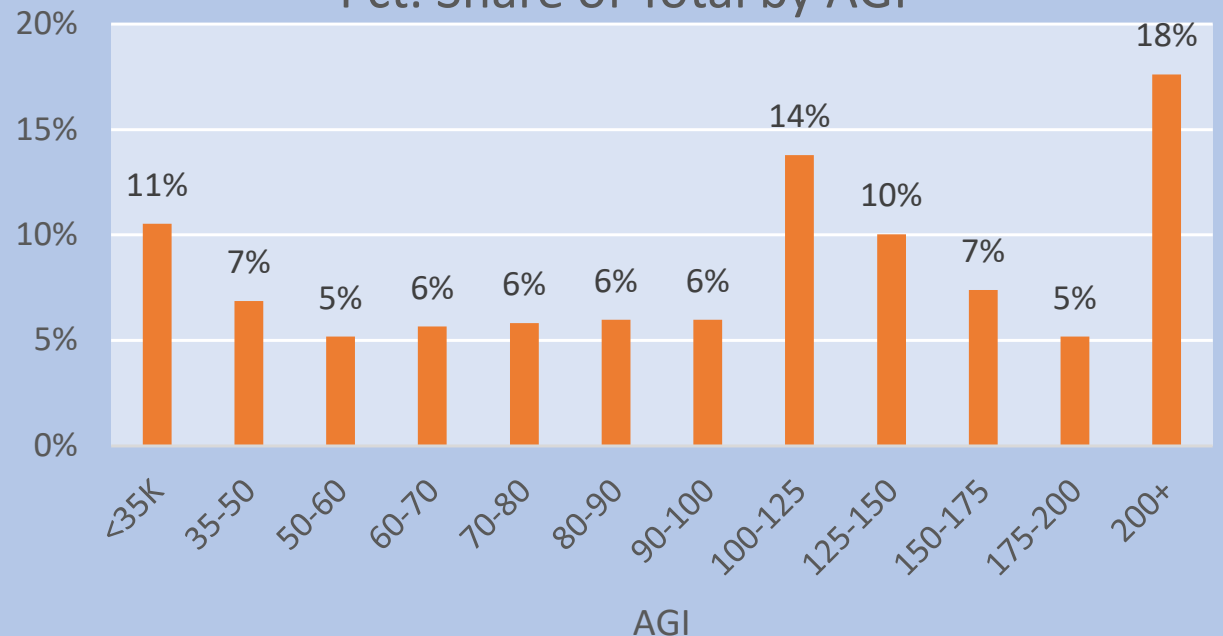


Sources: DOR, LRO

■ # of Taxpayers

Exhibit 3b.

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

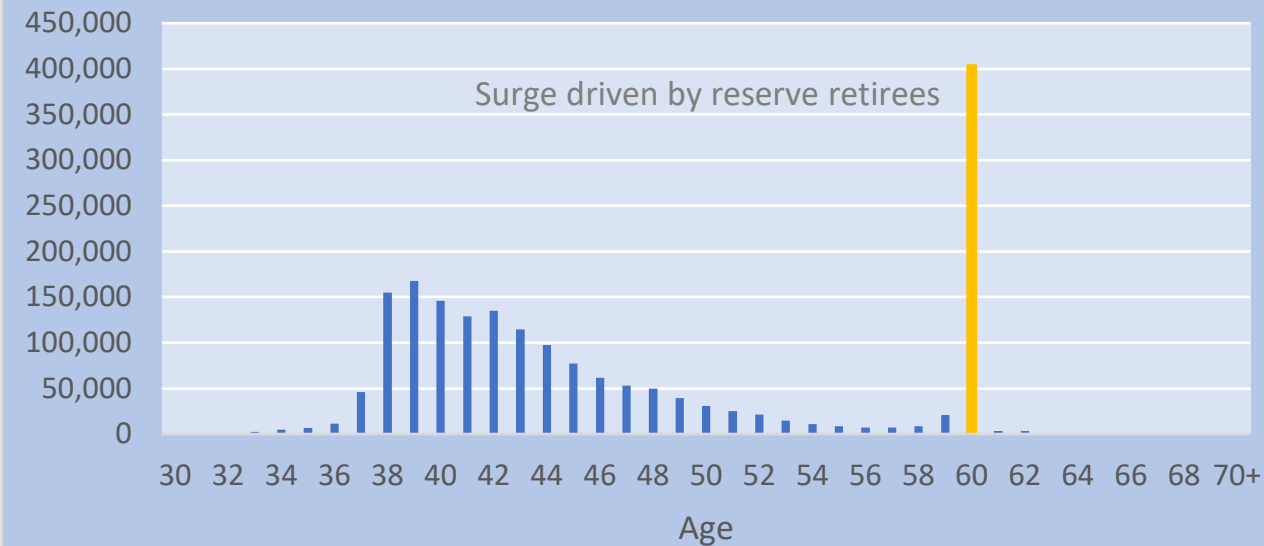


■ Military Retirement Inc.

Age of Military Retirees

Exhibit 5

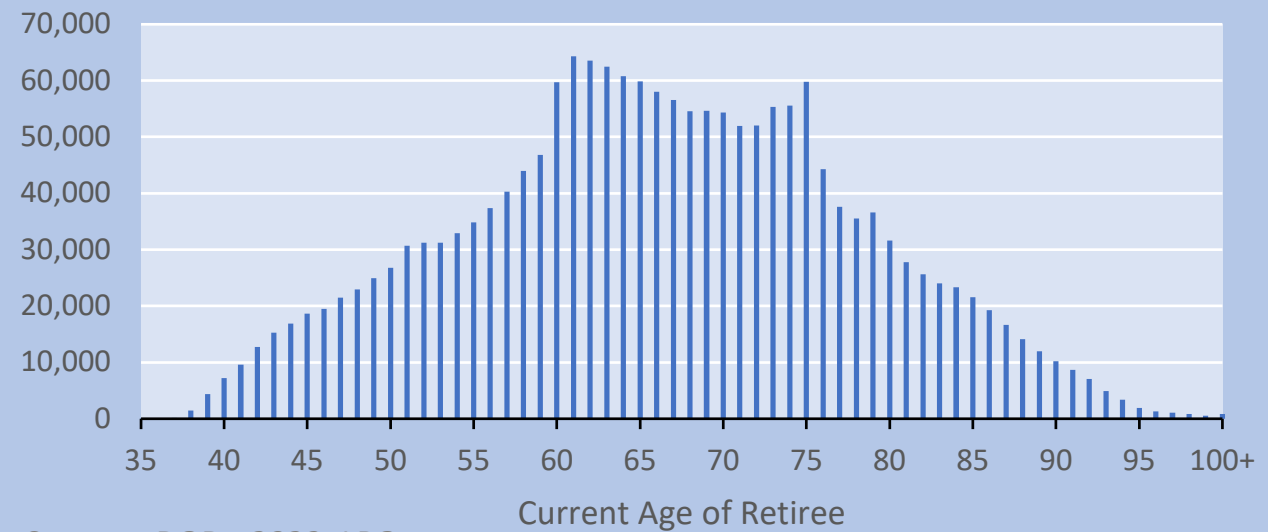
Number of Retirees by Age at Time of Retirement U.S. |
Non Disability | As of Sept. 2022



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
SB 540 (2023)	Full Exclusion		-\$32.6	-\$32.6	-\$72.3	-\$81.9
	Full Exc. Age > 65		-\$14.1	-\$14.1	-\$32.9	-\$39.2
	Full Exc. Age > 50		-\$28.1	-\$28.1	-\$62.9	-\$71.9
	Full Exc. Age < 63		-\$16.8	-\$16.8	-\$35.5	-\$37.9
	≤ 17.5K Age < 63		-\$8.7	-\$8.7	-\$18.4	-\$19.7
	≤ 17.5K Age < 62		-\$8.1	-\$8.1	-\$17.2	-\$18.4
	≤ 17.5K Age < 60		-\$6.9	-\$6.9	-\$14.7	-\$15.7
	≤ 17.5K No age limit		-15.4	-\$15.4	-\$33.1	-\$36.2
SB 225 (2025)	≤ 17.5K Age ≥ 63		-6.7	-\$6.7	-\$14.7	-\$16.5

Other States

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

Tax Treatment ²²	States		
States (with an income tax) that do not tax military retirement income (26)	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
States partially taxing military retirement income (11)	Colorado Delaware Georgia Idaho	Kentucky Maryland New Mexico Oregon	South Carolina Virginia West Virginia
States fully taxing military retirement income (6)	California Montana	Rhode Island Utah	Vermont Washington D.C.

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

