Imagine that certain individuals could receive big tax breaks based solely on a characteristic that has nothing to do with their earnings or expenses. What’s more, individuals with this characteristic would, overall, have a lower cost of living than the general population. And the number of people with this characteristic would be growing quickly, so their preferential treatment at tax time would lead to billions in lost revenue nationwide.

Actually, this scenario isn’t hypothetical. Older Americans receive income tax preferences – often significant ones – from every state and from the federal government. UNH Professor of Economics Karen Conway has been studying these tax breaks for the elderly. She wants to know how and why they arose, who benefits the most, how much they cost, their effect on the labor force, and whether they function as politicians claim they do.

“There’s no doubt that at this point states are competing for the elderly,” Conway says. She notes that governors from Georgia to Maine have argued that tax breaks will help attract and retain older residents, who they believe will spend money locally without burdening public services. Since the mid-1960s, the number of states offering income tax breaks for the elderly – including age-based deductions, favorable treatment of Social Security benefits, and exemption of pension income – has increased substantially.

But Conway has found no evidence that state tax policies are causing older people to move across state lines. Supported by a grant from the National Institutes of Health (NIH), she and Jonathan Rork (an associate professor of economics at Reed College who spent a year at UNH) analyzed U.S. Census data from 1970 to 2000. The results of their analysis are reported in an article forthcoming in National Tax Journal. The bottom line: In any given five-year period, only about 4 percent of elderly people undertake an interstate move – and tax policies don’t appear to affect where they go. (Factors that do influence relocation decisions? A state’s per-capita income, population level, housing prices, and other cost-of-living measures.) Although changes in Census methods have made it difficult to examine migration after 2000, Conway wants to try to convert the newer data into a comparable form to determine whether her findings hold true for recent years.

“I find the assertions that the elderly are leaving in droves highly questionable,” she says. “I think mobility is overestimated by a lot of people.”

She’s also interested in the labor-supply impact of taxing retirement benefits. Working with Tim Page, who earned his Ph.D. in economics at UNH and is now an assistant professor at Florida International University, she studied workforce data before and after 1983, when the federal government started taxing Social Security income. For higher-income elderly people, whose Social Security benefits would be taxed regardless of whether they chose to work, “we found a pretty sizable increase in their labor force participation.” She plans
to extend this inquiry to the state level, examining whether tax breaks affect the likelihood of older people taking part in the workforce.

Conway believes her research on tax breaks for the elderly is important, in part because so much is at stake. Across all states, at a time when many legislatures are contending with severe budget shortfalls, income tax breaks for the elderly amount to more than $24 billion in lost revenue. And that money isn’t staying with those who need it most: Because lower-income households already have small (if any) tax bills, middle- and upper-income elderly people generally have the most to gain from these tax breaks.

“It bothers me not only because of fairness,” Conway says, “but also because it’s real money and it’s going to grow – we’re aging. We’ve basically been cutting off a larger and larger portion of our tax base and saying we’re not going to touch it or we’re not going to tax it heavily.”

A two-time winner of the UNH Faculty Scholars Award, Conway also has received recognition for her teaching, including the UNH Class of 1938 Professorship, which she currently holds. Her research has enriched her teaching, she says, allowing her to show students how she’s used economics to investigate real-world issues. “I think I’m a better teacher because of the research I do.”

Conway’s research also focuses on the other end of the age spectrum: infants and children. In a study forthcoming in Review of Economics of the Household, she and Minghua Li of Franklin Pierce University found that children living with their single fathers – an under-studied group – were healthier than those in other nontraditional families, even though they had less access to health care.

Another study revealed that parents invest greater effort in their daughters’ educations than in their sons’, and that parental effort seems to have a bigger effect on girls’ achievement than on boys’. (Conway collaborated on this project with UNH Associate Professor of Economics Andrew Houtenville while he was a senior research associate at Cornell University.)

And at last November’s Southern Economic Association Meetings, she and her research partners reported that pregnant women who were exposed to the sun more gave birth to lower-weight infants than those with less sun exposure, even though sunlight triggers Vitamin D production. Surprised by these results, she plans to investigate further.

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**Story by Sonia Scherr and Lynnette Hentges.**

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