

**HEROES EARNINGS ASSISTANCE  
AND RELIEF TAX ACT OF 2007**

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**JOINT HEARING**  
BEFORE THE  
SUBCOMMITTEE ON SELECT REVENUE MEASURES  
AND  
SUBCOMMITTEE ON  
INCOME SECURITY AND FAMILY SUPPORT  
OF THE  
COMMITTEE ON WAYS AND MEANS  
U.S. HOUSE OF REPRESENTATIVES  
ONE HUNDRED TENTH CONGRESS

FIRST SESSION

OCTOBER 17, 2007

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**WEDNESDAY, OCTOBER 17, 2007**

U.S. HOUSE OF REPRESENTATIVES,  
COMMITTEE ON WAYS AND MEANS,  
SUBCOMMITTEE ON SELECT REVENUE MEASURES,  
SUBCOMMITTEE ON INCOME SECURITY AND FAMILY SUPPORT,  
*Washington, DC.*

The Subcommittee met, pursuant to notice, at 10:02 a.m., in room 1100, Longworth House Office Building, Hon. Richard E. Neal (Chairman of the Subcommittee on Select Revenue Measures) presiding.

[The advisory announcing the hearing follows:]

# ADVISORY

FROM THE COMMITTEE ON WAYS AND MEANS

## SUBCOMMITTEE ON SELECT REVENUE MEASURES

FOR IMMEDIATE RELEASE  
October 10, 2007  
SRM-7

CONTACT: (202) 225-5522

### Neal and McDermott Announce a Joint Hearing on the “Heroes Earnings Assistance and Relief Tax Act of 2007”

Congressman Richard Neal (D-MA), Chairman of the Subcommittee on Select Revenue Measures, and Congressman Jim McDermott (D-WA), Chairman of the Subcommittee on Income Security and Family Support, today announced a joint hearing on legislation soon to be introduced H.R. \_\_\_\_, called the “Heroes Earnings Assistance and Relief Tax Act of 2007.” **The hearing will take place on Wednesday, October 17, 2007, at 10:00 a.m. in room 1100, Longworth House Office Building.**

In view of the limited time available to hear witnesses, oral testimony at this hearing will be from invited witnesses only. However, any individual or organization not scheduled for an oral appearance may submit a written statement for consideration by the Committee and for inclusion in the printed record of the hearing.

#### **BACKGROUND:**

The Committee has jurisdiction over certain tax and other provisions that are intended to benefit our military, volunteer firefighters, and other service volunteers. Some of the tax provisions are set to expire at the end of the year and must be addressed. Other provisions need to be simplified.

The “Heroes Earnings Assistance and Relief Tax Act” would make the following changes: (1) make permanent the provision that permits active duty individuals to make penalty-free withdrawals from retirement plans; (2) make permanent and modify qualified mortgage bonds used to finance residences for veterans; (3) make permanent the ability to include combat pay as earned income for purposes of the Earned Income Tax Credit (EITC); (4) extend the limitation period for filing tax refund claims resulting from Department of Veterans Affairs (DVA) disability determinations; (5) make permanent the authority of the Social Security Administration to disclose tax return information to the Department of Veterans Affairs for purpose of determining eligibility for certain veteran programs; (6) permit recipients of military death benefit gratuities to roll over the amounts received, tax free, to a Roth IRA or an Education Savings Account; (7) permit an employer to make certain contributions to a qualified plan on behalf of an employee who was killed in combat; (8) for purposes of meeting the requirements of the Uniformed Services Employment and Reemployment Rights Act (USERRA), treat the day prior to the date of death as the date the employee returned to work for purpose of triggering payment of survivor benefits (or other beneficiary payments) under a qualified plan; (9) treat differential wage payments made by an employer to an employee who becomes active duty members of the uniformed services as wages for retirement plan purposes; (10) clarify the tax treatment for certain rebates of deductible State and local taxes for volunteer firefighters; (11) exclude certain reimbursed expenses that are incurred in the line of duty for volunteer firefighters; (12) clarify the application of the “5-year requirement with respect to the sale of a principal residence for Peace Corps volunteers”; (13) provide equitable treatment of most military cash allowances, beyond basic pay, for purpose of determining eligibility and benefit amounts for military families; (14) disregard certain annuity payments paid specifically to blind veterans for purpose of determining Supplemental Security Income (SSI) eligibility and benefits under the SSI program; and (15) disregard any benefits or allowances paid to Americorps volunteers for purpose of determining eligibility and benefits under the SSI program.

In announcing the hearing, Chairman Neal stated, **“We cannot forget the everyday needs of our military families and other American heroes serving their country honorably in Iraq and around the globe. I believe we have an obligation to examine the Internal Revenue Code to make certain it is working in an effective way for these brave individuals. This proposed legislation is another example of our commitment to the men and women who wear the uniform of the United States armed forces each day with dedication and distinction.”**

Chairman McDermott stated, **“We don’t want to leave those who defend our country defenseless against being hit by unfair taxes or reductions in needed benefits, and we are going to serve our military heroes in this legislation by correcting inequities that are simply inconceivable.”**

#### **FOCUS OF THE HEARING:**

The hearing will focus on legislative proposals designed to help members of our armed forces and their families, as well as others volunteering in service to America.

#### **DETAILS FOR SUBMISSION OF WRITTEN COMMENTS:**

**Please Note:** Any person(s) and/or organization(s) wishing to submit for the hearing record must follow the appropriate link on the hearing page of the Committee website and complete the informational forms. From the Committee homepage, <http://waysandmeans.house.gov>, select “110th Congress” from the menu entitled, “Hearing Archives” (<http://waysandmeans.house.gov/Hearings.asp?congress=18>). Select the hearing for which you would like to submit, and click on the link entitled, “Click here to provide a submission for the record.” Once you have followed the on-line instructions, completing all informational forms and clicking “submit” on the final page, an email will be sent to the address which you supply confirming your interest in providing a submission for the record. You **MUST REPLY** to the email and **ATTACH** your submission as a Word or WordPerfect document, in compliance with the formatting requirements listed below, by close of business **October 31, 2007. Finally**, please note that due to the change in House mail policy, the U.S. Capitol Police will refuse sealed-package deliveries to all House Office Buildings. For questions, or if you encounter technical problems, please call (202) 225-1721.

#### **FORMATTING REQUIREMENTS:**

The Committee relies on electronic submissions for printing the official hearing record. As always, submissions will be included in the record according to the discretion of the Committee. The Committee will not alter the content of your submission, but we reserve the right to format it according to our guidelines. Any submission provided to the Committee by a witness, any supplementary materials submitted for the printed record, and any written comments in response to a request for written comments must conform to the guidelines listed below. Any submission or supplementary item not in compliance with these guidelines will not be printed, but will be maintained in the Committee files for review and use by the Committee.

1. All submissions and supplementary materials must be provided in Word or WordPerfect format and **MUST NOT** exceed a total of 10 pages, including attachments. Witnesses and submitters are advised that the Committee relies on electronic submissions for printing the official hearing record.

2. Copies of whole documents submitted as exhibit material will not be accepted for printing. Instead, exhibit material should be referenced and quoted or paraphrased. All exhibit material not meeting these specifications will be maintained in the Committee files for review and use by the Committee.

3. All submissions must include a list of all clients, persons, and/or organizations on whose behalf the witness appears. A supplemental sheet must accompany each submission listing the name, company, address, telephone and fax numbers of each witness.

Note: All Committee advisories and news releases are available on the World Wide Web at <http://waysandmeans.house.gov>.

The Committee seeks to make its facilities accessible to persons with disabilities. If you are in need of special accommodations, please call 202-225-1721 or 202-226-3411 TDD/TTY in advance of the event (four business days' notice is requested). Questions with regard to special accommodation needs in general (including availability of Committee materials in alternative formats) may be directed to the Committee as noted above.

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Chairman NEAL. Let me call this hearing to order.

This country is fortunate that so many soldiers and sailors have been willing to sacrifice for our defense. That sacrifice often comes in different forms. For the Reservist or member of the National Guard who is called up to duty for extended periods, it can mean stepping off the career ladder or shuttering their own business. For the husband or wife of an active duty soldier, sacrifice can mean managing the household as a single parent. As the mother, father, or child of someone serving our country, sacrifice can mean losing a loved one.

We have all witnessed the depth of this sacrifice as we tour local military hospitals, visit veterans assistance centers, or attend funerals. Just last week, another young son from Massachusetts was lost. Army Private Kenneth Iwasinski was killed by an IED in Baghdad. He was scheduled to return home earlier this year, but his tour was extended. Kenneth was the 78th fallen hero from my home State, and I extend my deepest sympathies to his parents, Tracy Taylor of Chickami, Massachusetts, and Dominic Iwasinski of Belchertown, Massachusetts.

You do not have to look far in any city or town in America to find extraordinary service and sacrifice for our country. It has been said that in war there are no unwounded soldiers. This could probably apply to many military families as well.

It is truly a shared sacrifice, even when only one member of the family has volunteered their service. The family can suffer financially as well as emotionally during extended tours. It is the responsibility of this Committee to ensure that the Tax Code and other income security provisions do not create problems, but rather solve them so that families and soldiers can heal emotionally, physically, and financially and move on with their lives.

Today the Select Revenue Measures Subcommittee, along with the Income Security and Family Support Subcommittee, will hear from a variety of witnesses on draft legislation to extend, modify, and create a number of incentives to assist these families that have sacrificed so much for us.

This legislation would make permanent the current provision waiving the 10 percent withdrawal penalty for those called up to active duty who need to tap into retirement accounts. We have Representative Lampson to thank for this one, and he will be testifying before us today. The drafts would also allow families to roll over amounts received as death gratuity payments in Roth IRAs or Education Savings Accounts, an idea from Representative Walter Jones, who will be before us as well.

The draft makes a number of changes relating to Supplemental Security Income, or SSI, eligibility, military service, which is based upon suggestions from Representative Susan Davis, who joins us today, and Representative Tom Reynolds, a senior Member of this Committee.



Already a number of Members, including Representative Nancy Boyda, Representative Zach Space, Representatives Gabrielle Giffords and Bruce Braley, have filed legislation to make permanent the special rule treating combat pay as earned income for purposes of the Earned Income Tax Credit, or EITC.

The draft bill we are discussing today includes that important provision, and we thank those Members for championing this issue. The draft bill will provide a number of changes to allow employers the flexibility to extend benefits to workers called up for duty, and will expand certain provisions that provide mortgage assistance to veterans through qualified bond programs.

The draft bill also includes incentives for those who volunteer their service Stateside, such as firefighters and emergency responders, as has been suggested in legislation by Mr. Larson.

As you can see, we have reviewed a number of good suggestions from Members of the House and this Committee, and we are still doing so. It is our hope that a final bill will be a bipartisan product that the full Committee can mark up in the next few weeks.

To assist us today in understanding all of these provisions, we welcome today our first panel, Representative Davis, Representative Lampson, and Representative Jones.

Our second panel will include Mr. David Rust, the Acting Deputy Commissioner for Disability and Income Security Programs at the Social Security Administration. Mr. Rust will discuss the SSI provisions under consideration.

And on our third panel, we will welcome Jack Downing, President and Chief Executive Officer of the United Veterans of America, based in Leeds, Massachusetts. Mr. Downing heads an early intervention program to assist recently returned veterans in transitioning back to the workforce.

We will also hear from Ms. Victoria Johnson of Yakima, Washington, who lost her husband earlier this year and almost lost his retirement savings as well. We will hear from Mr. John McAuliffe, the Connecticut State Director of the National Volunteer Fire Council from Wethersfield, Connecticut.

And we will hear from Ms. Jessica Perdew representing the National Military Family Association in Alexandria, Virginia. From Albany, New York, we are pleased to be joined by Ms. Michelle LaRock, the Deputy Director of Program Development at the Division of Veterans' Affairs, who will discuss the State annuity program for line veterans.

And now I would like to recognize and turn to Chairman McDermott for his opening statement. Mr. McDermott.

Mr. MCDERMOTT. Thank you very much, Mr. Chairman.

The brave women and men serving in our armed forces deserve nothing less than our respect and full support for the tremendous sacrifices that they and their families make as they honorably defend their country. Whether they are completing their tours of duty or returning home with a service-related injury, they need to know that their government is on their side.

The last thing they need and deserve is to be hit with unfair taxes and reductions in Federal benefits during their time of need. It is inconceivable to me that some military servicemembers and their families are not getting the benefits they are entitled to be-

cause of disparate treatment in the Tax Code or a Federal disability program. They earn every benefit that is available to them, many times over. We can and should enact legislation quickly to ensure that military families are treated fairly.

The purpose of this hearing, as you have heard, is to consider proposals that would provide greater equity in the Tax Code and in the Supplemental Security Income program for the men and women serving in the armed forces and their families, and also ensure assistance to other Americans who selflessly volunteer to serve communities across this Nation and the world.

Chairman Rangel is preparing legislation he will introduce soon that will eliminate many of the inequities that currently exist in the tax law and the Supplemental Security Income program that create hardships for military personnel and volunteers. The proposal, which will be titled the Heroes Earnings Assistance and Relief Tax Act, or the HEART Act, would bring fair tax treatment to those individuals and their families in a number of ways.

For example, the proposal would permanently extend the option for military families to include combat pay as earned income for the purposes of calculating the Earned Income Tax Credit. This option is currently scheduled to sunset at the end of the current year. The Earned Income Tax Credit provides financial assistance for vulnerable military families who experience financial hardships as a result of a servicemember's deployment.

The financial support would provide a servicemember with the comfort of knowing that his or her family is receiving some additional income to assist them while they are away defending their country. This is the least we can do for families who are sacrificing so much.

The Chairman's proposal would also make several improvements to the Supplemental Security Income program, commonly called SSI, to better assist servicemembers and their families. The SSI program provides critical benefits to millions of elderly and disabled Americans who have low incomes and limited resources, including military servicemembers with disabled spouses or children.

Some military families who rely on SSI for critical financial support may lose a portion of their benefits because of the unfair treatment of certain types of military cash allowances in determining a disabled spouse or child's eligibility for assistance under the program.

Unlike civilian wages, some military payments are subject to less favorable treatment under the SSI program. Most allowances and bonuses paid to servicemembers beyond their basic pay are counted as unearned income under the SSI program. This treatment effectively reduces, and in some cases eliminates, SSI benefits for thousands of military families.

To address this inequity, earlier this year I joined with Representative Susan Davis from San Diego in introducing legislation to eliminate the unfair treatment of military allowances when calculating SSI program eligibility and benefit amounts. The bill would result in higher benefit amounts and would increase access to the program for some servicemembers and their families.

I am pleased that Chairman Rangel is planning to include provisions from that bill into the military package that he is preparing.

This change will go a long way in helping servicemembers who need the financial support, and the additional health coverage that generally comes with it, to care for a disabled member of their family. I am also pleased that our colleague, Ms. Davis, is here with us today to lend her support for these important provisions.

The Chairman's plan would also include bipartisan legislation that was introduced by Representative Tom Reynolds that would remove penalties for blind veterans who receive State annuity payments. The Act would exempt State annuities that are paid specifically to blind veterans from the tests that are used to determine eligibility and benefits under SSI.

Some AmeriCorps volunteers currently have benefits under this program excluded from SSI eligibility rules, while others do not. The Chairman's proposal would end this disparity by exempting payments made to all AmeriCorps volunteers when determining eligibility and benefits. This recommendation comes from the Social Security Administration and from the Corporation for National and Community Service.

And last, the bill includes legislation that Mr. Van Hollen and I introduced to clarify the application of the 5-year requirement to the sale of a principal residence by a Peace Corps volunteer. The pending legislation is an important piece of work that will improve the lives of members of the armed forces and their families. It will also benefit those who volunteer to serve in the United States.

And I am pleased to join my colleague, Congressman Neal from Massachusetts, in convening this hearing to discuss these important bipartisan proposals on behalf of the Committee. And I look forward to working with my colleagues on both sides to ensure that military personnel and other volunteers are treated equitably in our Tax Code and our Federal benefits. Thank you.

Chairman NEAL. Thank you, Mr. Chairman.

Now I would like to recognize our friend Mr. English, the Ranking Member of the Select Revenue Measures Subcommittee, for his opening statement. Mr. English.

Mr. ENGLISH. I thank you, Mr. Chairman, for calling this hearing today. I think it is fair to say that we cannot express enough the tremendous debt of gratitude that we owe to the brave men and women who defend our freedoms on a daily basis.

I have been privileged to have had the opportunity to support both our active duty military and the veterans who no longer wear the uniform. I am very grateful in this job to have been able to support legislation expanding quality of life improvements and pay increases for soldiers, as well as expansions of the VA medical care for veterans.

And while many of these provisions are clearly not in the jurisdiction of this Committee, it is clear that the Tax Code does have an important role to play in addressing the needs of active duty and retired servicemembers. Today's hearing I think is a timely attempt to explore some of the ways the tax system is helping, and in some cases where it is not, and perhaps some opportunities for us to improve tax policy in this area.

I am looking forward to the testimony, and also to working with you, Mr. Chairman and others, to identify substantial solutions to real-life problems facing our military.

One of the problems I hope we will have a chance to examine is the shortage of on-base housing. This shortage forces the military to offer a housing allowance to soldiers who must find adequate housing off base. It is not clear to me that there is meaningful difference between these housing allowances and Section 8 vouchers for low-income families, which are also offered by the Federal Government.

Yet strangely, under current law, the Tax Code perversely discriminates against military personnel attempting to find off-base housing. Specifically, under current law, Section 8 vouchers do not count as income for purposes of determining whether an individual meets the income limits for living in a rent-subsidized low-income housing tax credit facility.

Yet, the law says that the recipients of the military housing allowance must include the value of the allowance in determining income for the low-income housing tax credit. This counterintuitive rule is unfair and discriminates against those who choose to serve their country. There is no reason to treat recipients of Section 8 vouchers more favorably than members of our military, Mr. Chairman.

I am grateful for those, including Mr. Moran of Kansas, who have gotten involved in this issue. And I hope that we will be able to work together in the coming days and weeks to address this serious problem. I can think of no better place to do so than in the context of this bill.

Again, I thank you, and I thank the Committee, for moving forward in this area. And I yield back the balance of my time.

Chairman NEAL. Thank you, Mr. English.

And now let me recognize Mr. Weller, the Ranking Member of the Income Security and Family Support Subcommittee, for his opening statement. Mr. Weller.

Mr. WELLER. Thank you, Mr. Chairman. I appreciate the opportunity to participate in this very important hearing. I also want to welcome my colleagues who are not Members of this Committee who are joining us today, all three friends, and welcome them for testifying before our two Subcommittees this morning.

This is an important hearing, Mr. Chairman, in which we will review the tax and benefit assistance provided today to support active and retired military families, amongst others. We should always be looking for ways to ensure that families who make these sacrifices receive appropriate and timely support. That will provide more help to current veterans, as well as active duty families.

But it will also encourage more young people to make these sort of sacrifices for our country in the future. We must always honor those who sacrifice and defend our freedoms. Those are our military men and women, as well as our veterans.

So I thank you for calling this hearing. I look forward to our continued bipartisan work on these issues in the weeks ahead.

At this time I would like to yield to my colleague and friend, Representative Tom Reynolds, who has authored numerous bills designed to improve the assistance provided to blind veterans in New York and other States. This assistance flows to the SSI program that operates under the jurisdiction of the Income Security

and Family Support Subcommittee. The proposal before us includes a modified version of Mr. Reynolds' proposal. Mr. Reynolds.

Mr. REYNOLDS. I thank my friend for yielding me this time. And I thank both Chairman Neal and Chairman McDermott, as well as Ranking Members English and Weller, for holding this important hearing.

Mr. Chairman, we come together this morning not as Democrats or Republicans, but as Americans. We are united in our respect for those who wear the uniform of the United States armed forces, and we are united in our desire to ensure that Federal programs within the Committee's jurisdiction, from Tax Code to the SSI program, work effectively for members of the military, veterans, and their families.

I would like to highlight two specific provisions in the Committee's draft bill that have been of particular interest to me during my time with Congress. The first provision, section 202, is modeled on legislation, the Blind Veterans Fairness Act, that I first introduced in the year 2000.

My legislation would correct a problem in the Federal SSI rules that affect blind veterans in four States, New York, New Jersey, Pennsylvania, and Massachusetts, that provide blind veterans modest annuities in recognition for substantial sacrifices they have made in serving our country. We will hear more about one of those State annuity programs during our third panel when I introduce Michelle LaRock of New York's Division of Veterans' Affairs.

Regrettably, under current Federal law, these State annuities actually reduce SSI payments for which blind veterans could otherwise be eligible. I do not need to remind my colleagues who serve on the Income Security Subcommittee that SSI beneficiaries are among the poorest of the poor in our country. The absolute last group of people the Federal Government should be barring from the program are veterans who gave their sight so the rest of us might be free.

As in years past, the bill I have introduced in the 110th Congress, H.R. 649, has enjoyed bipartisan support among my Committee colleagues, including Chairman Neal, Mr. McNulty, and Mr. Porter. I would also like to thank Chairman Rangel for his cosponsorship of prior versions of this bill, and I look forward to working closely with him to see that this proposed legislation finally is enacted into law. I would ask unanimous consent that a letter from the Blinded Veterans Association endorsing H.R. 649 be entered into the record.

Let me turn now to a separate provision in section 104 of the draft bill, which would permanently allow penalty-free withdrawals from IRA 401(k)s and other retirement funds for Reservists and National Guardsmen called to active duty. As we know, when Guardsmen or Reservists are called up, they often face significant reductions in pay compared to their civilian salaries, putting an economic strain on their families.

To lessen this economic hardship, many of them choose to draw down on their retirement funds. Unfortunately, under prior law they face a 10 percent early withdrawal tax when they do so, and they face restrictions on making repayments to their retirement funds upon returning from active duty. Last year's Pension Protec-

tion Act provided relief from the 10 percent penalty tax and permitted unlimited repayments within 2 years after leaving active duty, but only for Guardsmen or Reservists called to active duty before December 1, 2007.

To ensure this important relief remains available on a permanent basis going forward, I introduced H.R. 867, the Guardsmen and Reservist Tax Fairness Act, on February 7th of this year. This legislation has also attracted a bipartisan group of cosponsors, as well as endorsement from several leading VSOs. And I ask unanimous consent to make those endorsement letters part of the record as well.

In closing, Mr. Chairman, I understand that we will be receiving testimony this morning from one of our colleagues, Mr. Lampson, about a bill he introduced on September 19th, just a few weeks ago, which is essentially identical to H.R. 867. I am delighted to see that my idea is gaining additional traction both by Democrats and Republicans, and I welcome support from any Member who is willing to help get this done. For me, this issue isn't about who can claim the most credit for eliminating the early withdrawal tax. It is about doing what is right for Guardsmen and Reservists.

Mr. Chairman, I hope today's hearing will be a springboard for bipartisan action on these two important provisions that will find a way to make these changes without taxing ourselves to death somewhere else to pay for them. I thank the gentleman from Illinois for his courtesy in yielding me the time, and I yield back.

Mr. WELLER. Claiming my time, and I yield back. Thank you, Mr. Chairman.

Chairman NEAL. Thank you.

I thank the gentleman from New York, and without objection, the letters he referred to will be part of the record.

Mr. REYNOLDS. I thank the Chairman.

Chairman NEAL. Without objection, any other Member wishing to submit an opening statement for the record may do so. And without objection, all written statements by witnesses will be made part of the record in full.

Ms. Davis, Mr. Lampson, Mr. Jones, welcome to the Committee. Ms. Davis, would you please begin.

**STATEMENT OF THE HONORABLE SUSAN A. DAVIS, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF CALIFORNIA**

Ms. DAVIS. Chairman Neal, Chairman McDermott, Ranking Member English, and Ranking Member Weller, thank you very much for convening today's joint hearing on the Tax Code's discriminatory treatment of servicemembers. I certainly appreciate having this opportunity to discuss how incorporating the language from the McDermott-Davis bill, H.R. 337, into the Heroes Earnings Assistance and Relief Act, the HEART Act, will help remedy one area of inequality.

I would also like to thank the Members of the Committee for their effort to include provisions supporting Qualified Veterans Mortgage Bonds, or QVMB bonds, to promote homeownership for former servicemembers. Those loans have helped thousands of veterans in California and other eligible States purchase homes.

Correcting the flaw in current law that prevents veterans who signed up for military service after 1977 would be an enormous step forward. Those returning from Iraq and Afghanistan would have greater opportunities to purchase homes, especially in California's high-cost real estate market. Again, I want to thank you for finally addressing the inequities in the QVMB program and for setting reasonable bond limits for the States that participate in this valuable program.

Today's hearing illustrates an important point, and that is that we have a responsibility to care for those who have chosen to serve their country. Just as these brave men and women are working to protect our Nation, we must likewise protect them and their loved ones through the laws and the policies that we enact.

I want to turn to SSI eligibility and H.R. 337. The current Supplemental Security Income, SSI, regulations are causing some military families a great deal of frustration, and in some cases preventing them from obtaining benefits. As you know, SSI is a means tested income assistance program that also facilitates access to valuable services such as Medicaid. Without SSI, some special needs families would not be able to cover their medical expenses.

However, members of the armed forces face a unique risk of losing SSI eligibility. Under the program's rules, wages receive preferential treatment, the 50 percent disregard, as earned income, resulting in a lower countable income and, therefore, a higher SSI benefit. This process of income determination is generally straightforward, as Chairman McDermott pointed out, for the civilian population.

But the intricate military pay and allowance system complicates the income determination process. Military members must contend with different treatment for items considered earned income or unearned income. Under current rules, only basic pay and continental United States cost of living allowance, the CONUS COLA, are considered earned income. Unfortunately, there are more than 30 types of military pay that are treated as unearned income and result in a higher countable income. It is a bit counterintuitive as we look at this. But that is really what is happening to these military families.

The language from the Military Families Financial Security Act, H.R. 337, changes how the SSA calculates income for SSI eligibility by treating most military compensation as earned income. This very simple change will help families remain eligible for SSI benefits and, overall, simplify the Administration of this program.

In addition, the language in H.R. 337 would codify current treatment of Basic Allowance for Housing, the BAH, to the rules for in-kind support and maintenance. Treating BAH this way would be more favorable for income determination purposes.

I wanted to just mention a few comments that I have had from military families because I have heard from many of them who are struggling with the current SSI rules. And I think a few of their comments are telling.

Lori Brown from northern San Diego has three children. Her husband, a 13-year Marine, is active duty. Her two boys receive SSI benefits. Dakota, 13, has Asperger's syndrome, and Hunter, age 7, cerebral palsy and epilepsy. And she wrote the following:

“We have had many ups and downs with SSI over the years. The way the military leave and earnings statement looks, everything is broken down and itemized for accounting purposes. But civilian pay stubs are looked at as earned income. This practice puts us at a great disadvantage. All the military families are looking for is equal rules for all, civilian and military, no better, no worse.”

In closing, there is no doubt that the men and women who serve in our armed forces are everyday heroes. However, their service is even more inspiring when we realize many of these men and women are also trying to raise children and take care of their families.

As Chair of the House Armed Services Subcommittee on Military Personnel and a former military spouse, the subject of military families has always been dear and near to my heart. The provisions from H.R. 337 and those dealing with veterans mortgage bonds are fair, overdue, and demonstrate our Nation’s appreciation for our military families and veterans. These changes will give servicemembers a bit more peace of mind from knowing that payment for their duties will not be jeopardizing their families’ eligibility for SSI benefits and related services.

Thank you.

[The prepared statement of Ms. Davis follows:]

**Prepared Statement of The Honorable Susan A. Davis,  
a Representative in Congress from the State of California**

Chairman McDermott, Chairman Neal and Distinguished Members of the Subcommittees,

Thank you for convening today’s joint hearing on the Tax Code’s discriminatory treatment of servicemembers.

I appreciate having this opportunity to discuss how incorporating the language from the McDermott-Davis bill, H.R. 337, into the Heroes Earnings Assistance and Relief Tax (HEART) Act will help remedy one area of inequality.

Today’s hearing also illustrates an important point, that is, we have a responsibility to care for those who have chosen to serve their country—just as these brave men and women are working to protect our Nation, we must likewise protect them and their loved ones through the laws and policies we enact.

***SSI Eligibility and H.R. 337***

Current Supplemental Security Income (SSI) regulations are causing some military families a great deal of frustration and—in some cases—preventing them from obtaining benefits.

As you know, SSI is a means-tested income assistance program that also facilitates access to valuable services such as Medicaid.

Without SSI, some special-needs families would not be able to cover their medical expenses. However, members of the armed forces face a unique risk of losing SSI eligibility.

Under the program’s rules, wages receive preferential treatment (50% disregard) as “earned income” resulting in a lower countable income and, therefore, a higher SSI benefit. This process of income determination is a generally straightforward one for the civilian population.

The intricate military pay and allowance system complicates the income determination process. Military members must contend with different treatment for items considered “earned income” or “unearned income.” Under current rules, only basic pay and Continental United States Cost of Living Allowance (CONUS COLA) are considered earned income. Unfortunately, there are **more than 30 types** of military pay that are treated as “unearned income” and result in a higher countable income.

The language from the Military Families Financial Security Act, H.R. 337, changes how the SSA calculates income for SSI eligibility by treating most military compensation as earned income. This simple change will keep families eligible for SSI benefits and simplify the administration of this program.



In addition, the language in H.R. 337 would codify current treatment of Basic Allowance for Housing (BAH) to the rules for in-kind support and maintenance. Treating BAH this way would be more favorable for income determination purposes.

***Comments from Military Families***

Chairman McDermott and Chairman Neal, I have heard from numerous families who are struggling with the current SSI rules and want to share a few of their comments with you.

Lori Brown from northern San Diego has three children and her husband, a 13-year Marine, is active duty. Her two boys receive SSI benefits. Dakota, 13, has Asperger's Syndrome and Hunter, 7, cerebral palsy and epilepsy.

She wrote the following:

"We have had many ups and downs with SSI over the years. The way the military LES (Leave and Earnings Statement) looks everything is broken down and itemized for accounting purposes, but civilian's pay stubs are looked at as all "earned" income. This practice puts us at a great disadvantage. All the military families are looking for is equal rules for all civilian and military, no better no worse."

Anne Hoag from Watertown, NY has a 4½-year-old son, Liam, who did not qualify for SSI benefits because of the family's income. She shared the following about the current income determination process.

"This system is totally unfair and unjust for my son. If we made the same amount of money and were civilians, he would qualify for SSI.

Being a military family is hard. Being a family with a disabled member is hard. Being both is even harder, and these families, these kids are suffering due to temporary circumstances. SSI money would make a huge difference in the life of my child."

***In Closing***

There is no doubt that the men and women who serve in our armed forces are everyday heroes. However, their service is even more inspiring when one realizes that many of these men and women are also trying to raise children and take care of their families.

As Chair of the House Armed Services Subcommittee on Military Personnel and a former military spouse, the subject of military families has long been dear and near to my heart.

Lee Iacocca once said, "The only rock I know that stays steady, the only institution I know that works, is the family." He could have been talking about military families.

The provisions from H.R. 337 are fair, overdue and demonstrate our Nation's appreciation for our military families. These changes will give servicemembers peace of mind from knowing that their duties will not jeopardize their families' eligibility for SSI benefits and related services.

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Chairman NEAL. The gentleman from Texas, Mr. Lampson, is recognized for testimony.

**STATEMENT OF THE HONORABLE NICK LAMPSON, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF TEXAS**

Mr. LAMPSON. Thank you, Chairman Neal, Chairman McDermott, Ranking Members English and Weller, distinguished Members of the Committee. It is an honor to be able to come and offer testimony this morning, and I certainly appreciate you calling this important hearing.

Two weeks ago I announced a tax package that I developed to benefit all of our country's middle class, the America's Middle Class Tax Relief Plan. And included in that plan was H.R. 3594, America's Heroes Tax Relief Act, a bill that permits soldiers called to active military duty to deduct from the individual retirement accounts, their 401(k) plans or 403(b) tax-sheltered annuities, with-

out having to pay the 10 percent early deduction tax the IRS levies on withdrawals taken before 59½.

The Heroes Earnings Assistance and Relief Tax Act, HEART, that we are discussing today includes my legislation and many other provisions that help our soldiers and their families. And I am proud to support this bill that takes into consideration the financial burdens placed on our men and women in uniform serving bravely throughout the world, and works to provide for their financial security by cutting taxes and ensuring the receipt of important benefits that our military families depend on.

Southeast Texas has the largest population of veterans in the Nation. Their service is something that we do not take for granted. National Guardsmen and Reservists throughout the world serve the United States honorably and bravely, often while enduring personal financial hardship. This legislation is just a small way to show our gratitude for their service and their sacrifice while easing the financial strain that can be put on them and their families.

For military Reservists and National Guard members who are deployed and sent away from their usual job, the strain can be compounded. Since the war in Iraq began, statistics have shown that more than a third of these soldiers experience a cut in pay when they are called to active duty.

Perhaps the hardest hit of this group are small business owners and self-employed workers, who account for about 6 percent of the Reservists. Many of these individuals lose customers. They fall behind on their bills or are in some instances forced into bankruptcy. This is simply unacceptable, and the Heroes Earnings Assistance and Relief Tax Act will help.

Veterans in my district are grateful for this legislation. Those who served in previous conflicts sympathize with the difficulties that our troops face when they return home, and are always thankful when we can make their time serving in active duty easier for them and for their families.

Temporary relief from this tax was enacted through H.R. 4 in the 109th Congress, which became public law in August 2006. But it didn't go far enough. Through the Heroes Earnings Assistance and Relief Tax Act, penalty-free withdrawals will become permanent, which will enable our heroes to count on a relief of financial burden on their families.

This provision will enable military families in Texas and elsewhere to permanently make withdrawals from their retirement accounts to ensure their financial security while loved ones are serving our Nation. More Reserve soldiers than ever before hold white-collar jobs. And for many of these individuals, time away from home can harm relationships with customers and clients that took years to cultivate.

Often, soldiers are called up to active duty and need extra funds to ensure their family is supported when they are sent overseas to protect our Nation. Our soldiers risk their lives defending our freedom and ensuring our Nation's security. They should not be penalized by the IRS while doing it.

Again, I want to thank you for initiating this hearing on this important legislation that will help the families of our brave National Guardsmen and Reservists in combat continue to live their every-

day lives with as little added stress as possible while their loved ones are overseas. I thank you, Mr. Chairman, and yield back.

[The prepared statement of Mr. Lampson follows:]

**Prepared Statement of The Honorable Nick Lampson,  
a Representative in Congress from the State of Texas**

I am pleased to offer this testimony, and I thank the Chairmen and Members of the Committee for calling this important hearing.

Two weeks ago I announced a tax cut package I developed to benefit all of our country's middle-class, America's Middle-Class Tax Relief Plan. Included in my plan was, H.R. 3594, America's Heroes Tax Relief Act, a bill that permits soldiers called to active military duty to deduct from their individual retirement accounts, their 401(k) plans and 403(b) tax-sheltered annuities, without having to pay the 10 percent early-deduction tax the IRS levies on withdrawals taken before age 59 and a half.

The "Heroes Earnings Assistance and Relief Tax Act" that we are discussing today includes my legislation and many other provisions that help our soldiers and their families. I am proud to support this bill that takes into consideration the financial burdens placed on our men and women in uniform serving bravely throughout the world, and works to provide for their financial security by cutting taxes and ensuring the receipt of important benefits that our military families depend upon.

Southeast Texas has the largest population of veterans in the Nation. Their service is something we do not take for granted. National Guardsmen and Reservists throughout the world serve the United States honorably and bravely, often while enduring personal financial hardship. This legislation is just a small way to show our gratitude for their service and sacrifice while easing the financial strain that can be put on them and their families.

For military Reservists and National Guard members who are deployed and sent away from their usual job the strain can be compounded. Since the war in Iraq began, statistics have shown that more than a third of these soldiers experience a cut in pay when they're called to active duty.

Perhaps the hardest hit of this group are small business owners and self-employed workers, who account for about 6 percent of reservists. Many of these individuals lose customers, fall behind on their bills or are forced to declare bankruptcy. This is simply unacceptable and the "Heroes Earnings Assistance and Relief Tax Act" will help.

Veterans in my district are grateful for this legislation. Those who served in previous conflicts sympathize with the difficulties our troops face when they return home and are always thankful when we can make their time serving in active duty easier for them and their families.

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Often, soldiers called up to active duty need extra funds to ensure their family is supported when they are sent overseas to protect our Nation. Our soldiers risk their lives defending our freedom and ensuring our Nation's security. They should not be penalized by the IRS while doing it.

Again, I would like to thank you for initiating this hearing on this important legislation that will help the families of our brave National Guardsmen and Reservists in combat continue to live their everyday lives with as little added stress as possible while their loved ones are overseas.

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Chairman NEAL. Thank you, Mr. Lampson.

Now I would like to recognize our friend Mr. Jones from North Carolina.

**STATEMENT OF THE HONORABLE WALTER B. JONES, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF NORTH CAROLINA**

Mr. JONES. Chairman Neal and Chairman McDermott, and my friends Ranking Members English and Weller, and the Members of this Committee, thank you for this opportunity.

Mr. Chairman, our men and women in uniform serve this Nation with great honor and distinction and may give their lives for this country. It is for this reason that I introduced this legislation over 2 years ago. H.R. 418 permits military families who receive the death gratuity to invest the full amount into certain tax-favored accounts.

As you may know, a death gratuity is a \$100,000 payment paid to survivors of servicemembers whose death resulted from combat-related circumstances. Current tax laws limit the amounts that recipients of the death gratuity can place in tax-preferred accounts such as a Roth IRA or a Coverdell Education Savings Account. This legislation would change that to allow recipients to contribute up to the full amount of the gratuity payment to any one of these two accounts.

As the families of our fallen heroes try to put their lives back together, they need help. They should not have to worry about saving the death gratuity to pay for retirement, college, or other expenses, and then have the government come in and tax the interest on that savings. This bill will help ensure that does not happen.

The need for this legislation was brought to my attention by Captain Michael Ceres, a constituent stationed at Marine Corps Air Station New River. Captain Ceres, who had just returned from serving in Iraq, contacted my office and suggested that Congress institute this change to ease the burden on grieving military families.

The Joint Committee on Taxation has scored this legislation at no cost, meaning that the actual cost of this proposal is less than \$500,000 over 9 years. We owe it to our fallen military heroes to expand the options of families who receive the death gratuity, families who have paid the ultimate cost with the loss of their loved one.

H.R. 418 has also received the endorsement of the Military Coalition, a group of prominent national military and veterans organizations that represent more than 5.5 million members, plus families.

I thank you, Mr. Chairman, for this hearing. I am grateful that this Committee is putting together this comprehensive package to help our families and our military. And so with that, Mr. Chairman, thank you again for this opportunity, and I yield back the balance of my time.

[The prepared statement of Mr. Jones follows:]

**Prepared Statement of The Honorable Walter B. Jones,  
a Representative in Congress from the State of North Carolina**

Mr. Chairman, Ranking Member, our men and women in uniform serve this Nation with great honor and distinction. Many give their lives for this country. It is for this reason that I introduced this legislation over 2 years ago. H.R. 418 permits military families who receive the death gratuity to invest the full amount into certain tax-favored accounts.

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As the families of our fallen heroes try to put their lives back together, they need all the help they can get. They should not have to worry about saving the death gratuity to pay for retirement, college, or other expenses—and then have the government come in and tax the interest on that savings. This bill would help ensure that does not happen.

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H.R. 418 has also received the endorsement of The Military Coalition, a group of prominent national military and veterans organizations that represents more than 5.5 million members plus their families.

Today, I call upon my colleagues to support H.R. 418 to expand the options of military families whose loved ones have given their lives in the name of freedom and in defense of our Nation.

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Chairman NEAL. Thank you very much, Mr. Jones.

I know that this question is going to sound very simple, but I think it is worthy of explanation and certainly would be helpful to the discussion as a whole. For any of the three panelists, you are cosponsoring or suggesting a manner in which it would be easier for people to access penalty-free retirement account withdrawals.

Can you explain succinctly why people need, in the military, to tap into these retirement accounts earlier than anticipated? Any one of the three like to take a—

Mr. LAMPSON. I would like to at least make one comment on it. There are many areas where we are desperately in need of people with good background to be able to do it, and oftentimes those particular jobs to which they may go are not highly paid jobs.

Teachers, for example, is an area where if a person is able to, when they leave the military, go into a teaching field and offset some of their costs for living with access to already-set-aside money without having to pay the penalty on it, it would be a significant boon to our communities. And I am sure that that can be doubled many times over.

Chairman NEAL. Thank you. Sounds so simple, but it is so critical.

Mr. LAMPSON. Indeed.

Chairman NEAL. Mr. English.

Mr. ENGLISH. Mr. Chairman, I would just like to thank these panelists for their contribution and for their very strong commitment to the veterans. And I have no further questions.

Chairman NEAL. Thank you.

Mr. McDermott.

Mr. MCDERMOTT. I would like to hear from each of you the case that came to your office that made you drop in this legislation,

because I think sometimes people don't understand where we get the ideas that we bring to Congress.

Susan, can you tell us what happened to you?

Ms. DAVIS. I have had an opportunity, actually, to meet with a number of families who have come and spoken to me. Lori Brown, who I mentioned in this particular story, I met with Ms. Brown and her son Hunter to talk about this issue.

And I think what is so difficult about it, the predictability for these families is just not there because their income is changing from one deployment to the next. And that is what is really difficult because sometimes if they are in combat, it may be exempted. But if they are not in combat, it is not.

I think the system itself just confuses families. And I had this wonderful family in front of me sharing how they just don't know how they are going to cover these medical expenses from one year to the next because of the way their income is counted.

As I said earlier and I think you mentioned, Mr. Chairman, it is counterintuitive. You would think that they would be getting more. But, in fact, because it is not counted as earned income, it then ends up being at a higher level, which sends the message that they are making a lot more money than they are actually making. And that is where the rub is.

Mr. MCDERMOTT. Nick.

Mr. LAMPSON. Mr. Chairman, I think there are probably two—

Mr. MCDERMOTT. Congressman Lampson.

Mr. LAMPSON. Call me anything. Just don't call me late for supper.

I think for the first time that I had such an impact made to me about the need to address issues like this was when a veteran's family came to us because they were in the process of losing their home, which they actually lost. I was astounded.

I think more recently, a gentleman who is working for me in my office now, when he returned from Iraq, expressed concerns himself about needing financial assistance to be able to make ends meet, to make the transition, to get back into the life here. So John Bursler is a gentleman who served valiantly in combat, and came back and is now working in my office.

And I think that the number of cases, Chairman McDermott, probably can go on as long as your arm, unfortunately. And there are some that are pretty dramatic. We have a significant number of people right now who I met with who have just returned. The 149th Attack Group came back just within the last couple of weeks. Some of those people are already coming and talking to us about some of the needs that legislation like the HEART Act will be able to assist. And we appreciate that.

Mr. MCDERMOTT. Mr. Jones.

Mr. JONES. Mr. Chairman, thank you. Captain Michael Ceres called me 2 years ago and we talked by telephone. And he said, Congressman, he said, I have been to Iraq one time. I am sure that I will be going back soon. He said, I want to make it as easy for my wife. He said, we have two children. The oldest is six. And he said, we have talked about my death and what I would like to happen for her and my children.

And I really get kind of a chill telling you this conversation because over the telephone, he was such a compassionate man. And he just wanted to make sure that his wife would have decisions that would be forthcoming; in some ways, maybe he could take off some of the pressure.

And that is how he brought this idea to me about the \$100,000 death gratuity. Give her, or any family, an option to put the full amount in and not have to worry about 5,000 here, 5,000 there. And I just felt like it made a great deal of sense. And if a family member is going to be sent to war and maybe not come back, then they could at least say to that spouse, you now have a choice that you can take the full amount, if you choose to do so, and put it into a 401 type plan.

Mr. MCDERMOTT. Thank you. Thank you all.

Chairman NEAL. Thank you, Mr. Chairman.

The Chair would now like to recognize Mr. Weller.

Mr. WELLER. Thank you, Mr. Chairman. And I want to thank my colleagues for being before us today. Clearly, all have proposals which have, I believe, strong bipartisan support.

I particularly want to commend my friend Mr. Jones for your initiative here in giving survivors the opportunity to save the full death benefit. As one who has worked on the issue of catch-up contributions, IRAs and 401(k)s to help working moms and empty nesters make up missed contributions, I believe your proposal clearly has bipartisan support and I would welcome the opportunity to work with you.

Mr. JONES. Thank you.

Mr. WELLER. As I note, as your testimony points out, this bill has already been scored. And the scoring says that the actual cost proposal is less than \$500,000 over 9 years. So it comes at a little cost, but it can really make a difference for families.

So I want to commend you for your initiative, and I would very much like to work with you as a cosponsor of your bill, if I could join with you.

Mr. JONES. Thank you.

Mr. WELLER. Thank you, Mr. Chairman. I yield back.

Chairman NEAL. Thank you. Are there any other questions from our panelists, or would it be okay—

Mr. DOGGETT. Mr. Chairman?

Chairman NEAL. The Chair would recognize Mr. Doggett.

Mr. DOGGETT. I'd like to thank each of you for the role you've played. And I believe that our objective, as Congressman Jones said, is to develop a comprehensive package, to take all the ideas that have come forward and try to bring them together to do as much as we possibly can.

I know you recall the effort that we made a few years ago just to get the limit on the death benefit up to \$100,000 because when this war began, it was much lower than that. And I think each of you have constructive proposals.

I would like to ask Congresswoman Davis about another idea. The SSI benefits you mentioned are extremely important, but we have also been considering as a part of this comprehensive package the challenges that many of our returning military personnel face when they come back to try to find housing.

And you have some legislation that you have introduced—I know Congressman Lampson has joined with it because particularly Texas and California have been affected—that currently the law does not allow more veterans who served our country since the Vietnam War to participate in programs like we have in Texas.

In Texas, it is done through our Veterans Land Board, and it has been really important to open financing for our vets to allow them to be a home buyer. And yet under the way the law is written now, someone who served in the Persian Gulf War, in Bosnia, in Somalia, and now in the conflicts in Afghanistan and Iraq, would not be eligible for a program that a Vietnam vet or someone earlier than that would be eligible.

Could you elaborate a little on your efforts, Congresswoman Davis or Congressman Lampson? I know you care about this issue also.

Ms. DAVIS. Yes. Well, thank you, Mr. Doggett. Yes. What is so difficult is that if you are coming back from Iraq or Afghanistan today, you are not eligible for that program that other vets have been eligible for in California and across the country.

By including the Qualified Veterans Mortgage Bonds in this provision today in this bill, it really does make a difference. Anyone serving after 1977 is therefore eligible. And these are the opportunities that provide them with the best loans possible.

And when we talk to those returning men and women, it doesn't make any sense to them that they somehow would not be part of this. It is a quirk basically and some limits that were cast in prior legislation, and that is the correction that is being done today. And it really will make a difference by substantial amounts to these folks.

Mr. DOGGETT. And Congressman Lampson, since your territory is not far from the area I represent in Texas, I am sure that like my area, it has an affordable housing problem, and that many of the folks who might settle there in the outskirts of Houston or in any of the area that you cover, that being able to get the financing, and now with some of the challenges especially within the mortgage industry, is really important to these returning vets.

Mr. LAMPSON. Anyone who has ever looked into the face of anybody who lost a home, and then more importantly, a veteran—when I was standing and talking with three different families on the return of a group of Iraq veterans, all three of them were having difficulties. Only one of them at the time lost a home.

Many of our—what is it, one-third of our homeless people are veterans. Those are atrocious statistics for us to consider. And like I started out, if you look at the face of someone like that, how can we not stand up to do anything we can to be of help?

This legislation we hope will. We want to make a difference. There are many, many, many people who are seeking the opportunity to be homeowners. If we can help them, then I think we are doing the job that we were sent here to Washington, D.C. to do.

Mr. DOGGETT. And I know, going back to your service even before coming to Congress, you are familiar with the work of the Texas Veterans Land Board—

Mr. LAMPSON. Certainly.



Mr. DOGGETT [continuing]. And how valuable it is to our vets there in Texas. And if we can open up opportunities there to more returning vets, we can provide more opportunity to come back and be full participants and homeowners in Texas.

Mr. LAMPSON. Certainly.

Mr. DOGGETT. Thank you, and I yield back.

Chairman NEAL. Mr. Thompson is recognized.

Mr. THOMPSON. Thank you, Mr. Chairman. I want to thank all of you for being here today and for your testimony, and for the great work that you are doing in this regard.

Specifically, though, I would like to thank Ms. Davis for her work in her bill that she introduced regarding the Qualified Veterans Mortgage Bond program. I am proud to be a cosponsor of that bill, and had it not been for that program, I don't think I could have purchased my first house.

So I know it was important for me, and I know it is important for a lot of other veterans. And we need to help those folks realize that American dream in all ways that we possibly can. So thank you.

I yield back.

Chairman NEAL. The Chair would recognize Mr. Blumenauer.

Mr. BLUMENAUER. Thank you, Mr. Chairman. And I too appreciate the hard work that is evidenced by our colleagues here, and I identify with the comments that both my previous colleagues have mentioned here from the dais.

Mr. Chairman, I guess I would just add my voice in terms of making sure that the Qualified Veterans Mortgage Bond program—we are in a State that has had a program here that has served, in Oregon, a third of a million veterans since World War II, being able to make some adjustments.

We are in danger of running out of money in my State, and I look forward to working with my colleagues who are witnesses and with you, Mr. Chairman, to make sure that the adjustment—it looks like we have some indication from the Committee staff and leadership that we might be able to make an adjustment for Oregon that would be necessary to keep that program going so that we don't shortchange our veterans who are returning from the field of battle of late.

And I appreciate the work that all of you are doing, and look forward to making sure that that benefit extends back to my community as well.

Chairman NEAL. Thank the gentleman.

The gentlelady from Nevada, Ms. Berkley, is recognized.

Ms. BERKLEY. Thank you, Mr. Chairman. I also want to thank and congratulate my colleagues for coming here and presenting their testimony regarding these pieces of legislation that are going to impact the lives of our veterans.

I represent a community that has the fastest-growing veterans population in the United States. I have over 200,000 veterans in my congressional district. And as a Member of the Ways and Means Committee and the Veterans' Affairs Committee, I keep in close contact with my veterans.

Nellis Air Force Base is directly outside of my district. And right now we have 1,600 veterans who have returned home from this lat-

est military action in Iraq and Afghanistan in our global war on terrorism. These pieces of legislation that are being proposed today are very important, and I fully support them.

When I hear our colleagues and Members of the Administration talking about supporting our troops, I can't think of a better way of supporting our troops than showing our veterans that we recognize their sacrifices and we care enough about them to make them as whole as possible when they return, and in the chance that they don't return, to show our appreciation for the ultimate sacrifice by helping the families overcome this tragedy.

So I thank you again for being here, and I appreciate your testimony.

Chairman NEAL. Thank the gentlelady.

Mr. Johnson, the gentleman from Texas, is recognized.

Mr. JOHNSON. Thank you, Mr. Chairman. I appreciate it.

You know, in Texas, and you would know that, the Qualified Veterans Mortgage Bond program in Texas has been very popular with older veterans. IT is a program that was grandfathered into law in 1986 along with other private activity bond programs in four additional States.

The program in Texas is limited to only veterans who served on active duty before 1977, and who apply for this housing finance assistance within 30 years after the last date of their military service. Frankly, there are not many veterans who fall into that category, but we have thousands of young Texans who are coming home from military service today who should be served by this program. Young veterans from Texas should be eligible for veteran mortgage bond financing for their homes, just as the young veterans in the States of Oregon, Alaska, and Wisconsin are now.

Mr. Chairman, I would like to get information from the Joint Committee on Taxation about how many additional veterans will be eligible for this housing assistance if this provision is added to the bill. And I also would ask unanimous consent to have a statement submitted for the record from the Texas Veterans Land Board Chairman, Jerry Patterson.

Chairman NEAL. Without objection, the gentleman's request will be entered into the record.

Mr. JOHNSON. Thank you. Thank you for allowing me to come in.

Chairman NEAL. Thank you, Mr. Johnson.

The gentlelady from Pennsylvania, Ms. Schwartz, is recognized.

Ms. SCHWARTZ. Thank you, Mr. Chairman. And I too want to congratulate my colleagues for their really important work in supporting our troops, our armed services, and particularly recognizing some of the issues that they have when they return home. So thank you for your good work, and I know you appreciate your interest being in this draft bill, and hope to keep it that way.

I wanted to take my moment to not ask a question, but to mention something else that is in the draft legislation that is a proposal that I have introduced and support. And it comes from—I appreciate the suggestion we are to talk about where it comes from.

And I have a constituent who came to me about an issue. He is actually a full-time civilian Federal employee at a defense logistics

agency in my district. I want to call it—we always refer to it as the defense supply depot, you know.

But he volunteered to go to Iraq to work, as he does here, on the same kind of issues of logistics and actually buying supplies. And so I didn't get a chance to see him in my district, but I did see him when I was in Baghdad. We met when I was in the Green Zone. He was in uniform, and his name is Tim McMinn.

And his issue was the fact that while he is serving in a combat zone and in harm's way and doing work for the Department of Defense as a Federal civilian employee, he does not get the same tax advantages as someone who serves in the military, and had asked me about whether in fact we could fix that.

He is overseas again in a combat zone in harm's way doing work asked by the Department of Defense, and his family is at home. And he would like the same tax advantages. So Mr. Wolf, who has introduced this legislation referred to as the Federal Employee Combat Zone Tax Parity Act—and actually, Mr. Jones, you are a cosponsor, as is Mr. English and Van Hollen on the Committee.

And it has been included in the underlying bill, draft bill. And I'm pleased about that. And, also, I know I share with you an interest in seeing that our civilian soldiers, if you want to call them that, are treated in the same way from a tax point of view so that they actually can receive the same tax benefits while they are deployed overseas.

So I am sure some of you would want to be supportive of that. But I mention it and want to say that I look forward to working with the Chairman on this particular piece of legislation and this content in the bill, and look forward to working on the larger bill as well, and hope we can move forward so that our newest veterans can receive some of the kind of fairness that they need from a tax structure.

So thank you, Mr. Chairman.

Chairman NEAL. We thank the gentlelady.

I want to also thank our panelists for their testimony today. And I would now like to move to the second panel, and ask Mr. Rust to take his position.

The Chair would now like to recognize Mr. Rust. Would you proceed with your testimony, sir.

**STATEMENT OF DAVID A. RUST, ACTING DEPUTY COMMISSIONER, DISABILITY AND INCOME SECURITY PROGRAMS, SOCIAL SECURITY ADMINISTRATION**

Mr. RUST. Chairman Neal, Chairman McDermott, and Ranking Members Weller and English, I am pleased to be with you today. On behalf of Commissioner Astrue, thank you for inviting me to discuss the proposed changes in the SSI program.

I am David Rust. I am the Executive Secretary of the Agency, and since early August, I have also been serving as the Acting Deputy Commissioner for Disability and Income Security Programs. My responsibilities include oversight and coordination of policy and operational issues for both the SSI program and the OASDI program. In this role, I have great interest in making these programs as effective as possible, and I am pleased that SSA views on the

pending SSI-related proposals in the HEART bill have been requested today.

Over the years, Congress has pursued incremental changes in the SSI law, finding ways in which equity can be improved and policy streamlined within the basic structure of the program. It is in that context that we can best evaluate the three SSI-related provisions in the legislation, and I am pleased to say that we support two of these provisions, and that they have been previously proposed to the Congress by SSA.

The first proposal would treat most military compensation as wages for SSI purposes and codify SSA's policy of treating certain housing allowances as non-cash or in-kind income. The proposal would also put in the statute the current SSI policy that excludes any additional pay received from service in a combat zone. We believe that this legislation is critically important.

The provision would remove the most significant inequity in the consideration of household income. And it is especially needed by disabled children of our Nation's service men and women. It is this group that is most severely affected by the current policy.

Under current SSI law, generally only basic pay is counted as earned income. All other allocations—housing, uniform, special duty pay, and so forth—are counted as unearned income. Because of the SSI provisions supporting beneficiary efforts to work, earnings from work are treated differently than other income in determining eligibility and benefit levels.

When a child is disabled, we determine eligibility based on family income using the same distinction between earned and unearned income. The different treatment of different pay types has had the effect of disadvantaging many military personnel.

The proposal contained in the HEART bill would result in treating most cash military compensation and civilian wages alike for SSI purposes, thus eliminating the present unfair treatment of military compensation other than basic pay.

We also support a statutory requirement regarding the consideration of certain privatized military housing. This approach to the housing allowance is appropriate because in these situations, the full amount of the servicemember's allowance is deducted directly from his or her pay and then paid directly to the landlord of the privatized housing. By codifying this policy into statute, Congress affirms the importance of eliminating inequities in the SSI program.

Mr. Chairman, I would note that I think that Representative Davis' earlier testimony clearly described the situation that many of these provisions were designed to address.

Turning to the second proposal, we also support legislation that would exclude AmeriCorps program payments for the purposes of determining SSI eligibility and benefit amounts. In 1993, the creation of the Corporation for National Community Service brought together two formerly independent Federal agencies, the Commission for National Service and the Action Agency.

This merger of previously separate agencies led to differences in how income for SSI purposes is considered. For volunteers in the AmeriCorps Vista program, Federal law excludes stipends paid to

the volunteers from income for SSI purposes. However, current law does not exclude similar payments to other AmeriCorps volunteers.

Thus, we have individuals performing similar volunteer work and participating in similar programs who are being treated differently. SSA supports the proposed legislation. Treating income similarly across the AmeriCorps volunteer programs would provide equity for our beneficiaries and also provide for administrative simplification.

Like all Americans, we recognize the great debt owed to members of the armed services who have made sacrifices for all of us. The third proposal, to exclude State annuity benefits to blind veterans from income considered for SSI benefits, serves as a means to recognize that sacrifice. An exclusion of State annuity payments for veterans who by definition are blind and also of limited resources seems reasonable and appropriate.

In conclusion, the AmeriCorps and Military Service Income proposals correct inequities that exist in the current SSI law, and the State Blind Pension exclusion could provide humanitarian assistance to those who have served our country.

I thank the Subcommittees for holding this hearing and for considering these SSI provisions. SSA looks forward to continuing to work with Congress in our ongoing efforts to promote sound public policy and improve program administration.

Thank you, and I will be glad to answer any questions you may have.

[The prepared statement of Mr. Rust follows:]

**Prepared Statement of David A. Rust, Acting Deputy Commissioner,  
Disability and Income Security Programs, Social Security Administration**

On behalf of Commissioner Astrue, thank you for inviting me to discuss proposed changes in the Supplemental Security Income (SSI) program. I am David Rust, and I serve as Executive Secretary of the Agency and, since early August, as the Acting Deputy Commissioner for Disability and Income Security Programs. My responsibilities include oversight and coordination of policy and operational issues for both the SSI and the Old Age, Survivors, and Disability Insurance (OASDI) programs. In this role I have an obligation to make these programs as effective as possible, and a great interest in proposals that would help achieve that end. So I am pleased to offer the Social Security Administration's (SSA's) views on several SSI-related proposals contained in the Chairman's draft bill.

**Background**

Before turning to the specific proposals contained in this bill, I would like to take a minute to provide some helpful background information. SSA has been administering the SSI program for more than 30 years—dealing with a program in which eligibility and the amount of needs-based benefits is dependent upon the fluctuating circumstances of millions of beneficiaries. Complex income rules, designed to more favorably consider earned wages than unearned payments, mean that SSA must evaluate the source of every dollar. Resource limits, likewise, mean that a beneficiary who is eligible for payments one month may not be the next.

If it sounds complicated, that's because it is. Means-tested programs such as SSI have to balance the stewardship requirements of protecting taxpayers, while insuring fair treatment for beneficiaries, with the administrative need to design programs that are manageable. It is quite a challenge for SSA and the Congress, both of which have studied SSI simplification and equity issues for years.

Over the years, Congress has pursued incremental changes to SSI law, finding ways in which equity can be improved and policy can be streamlined within the basic structure of the program. It is in this context that we can best evaluate the SSI-related provisions of this legislation, and I am pleased to say that we support two of the proposals without reservation, as they have in fact been previously transmitted to Congress by SSA in Administration bills.

***Treatment of Most Military Compensation as Wages***

Turning to the first proposal, this provision would treat most military compensation as wages for SSI, and codify SSA's policy of treating certain housing allowances as "in-kind" income. We believe this legislation is very important.

The provision would remove a significant inequity in the consideration of household income, and is especially needed in light of those who are most often affected by the current policy—the disabled children of our Nation's service men and women.

Under current SSI law, generally only basic pay is counted as earned income. All other allowances—housing, uniform, special duty pay, and so on—are counted as unearned income. Because of SSI's provisions supporting beneficiary efforts to work, earned income is treated differently than unearned income in determining benefit eligibility and payment level.

Generally, all unearned income above \$20 is used in these calculations. But in determining eligibility and calculating benefits, we do not count the first \$65 of earned income and one-half of income above the \$65 amount. When a child is disabled, we determine eligibility based on family income, using the same distinction between earned and unearned income. Current law requires us to treat all payments except for basic pay as unearned income. (Combat pay is disregarded altogether.)

This distinction between consideration of military basic pay and other pay types has had the effect of disadvantaging military personnel compared to civilians in similar situations.

Let's look at the differences in the way income would be treated in two similarly situated families:

The family of an active duty servicemember could be receiving basic pay of \$1,459 per month, and a military housing allowance of \$1,087—a total of \$2,546. The housing allowance portion is counted as unearned income. Because of the less-favorable treatment of unearned income for SSI purposes, in calculating SSI eligibility for a disabled child, we would "count" \$519.

But a civilian with the same total income of \$2,546 would receive all income through wages (earned income) and would pay rent via a portion of the wages. Thus we would count \$141 of the civilian's wages in determining SSI eligibility for the disabled child. Assuming there is no other income to either family, the disabled child in the civilian family would receive \$502 in SSI benefits, while the disabled child in the military family would only receive \$124.

The proposal contained in the HEART bill would result in treating most cash military compensation and civilian wages alike (for SSI purposes), thus eliminating this present unfair treatment of military compensation other than basic pay.

We also support placing into statute the current SSA policy regarding how we consider certain privatized military housing. In the SSI program, certain privatized military housing is generally considered "in-kind support and maintenance," and is treated differently than either earned or unearned income. Since March of 2003, we have capped the amount of SSI benefit reduction attributable to the housing allowance to one-third of the SSI Federal benefit rate. This approach to the housing allowances is appropriate because in these situations the full amount of the servicemember's allowance is deducted directly from his or her pay, and paid to the landlord of the privatized housing by military payroll. By codifying this policy into the statute, Congress affirms the importance of eliminating inequities in the SSI program.

***Exclusion of AmeriCorps Payments for SSI and DI Purposes***

Turning to the second proposal, we also support legislation that would exclude the AmeriCorps State and National and AmeriCorps National Civilian Community Corps program payments for purposes of determining SSI eligibility and benefit amounts.

Stipends for AmeriCorps VISTA volunteers are currently excluded from income for SSI purposes under the 1973 authorization for this program, the Domestic Volunteer Service Act. However, authorizing legislation for the newer AmeriCorps programs, *does not exclude* stipends for SSI purposes. These payments are counted as earnings in the SSI program, and room and board provided under the new programs is counted as in-kind support and maintenance. The earnings received based on these newer AmeriCorps programs are also taxable, and earn Social Security (OASDI) quarters of coverage. All three AmeriCorps programs have similar missions, and volunteers in these programs that receive a living allowance can receive a separate educational award upon completion of public service.

Thus, we currently have individuals performing similar volunteer work and participating in similar programs who are being treated differently. SSA supports the proposed legislation. Expanding the earning exclusions to participants in the other two programs would provide equity for our beneficiaries, administrative simplifica-

tion, and presumably enable AmeriCorps to enroll more participants with disabilities.

***Exclusion of Certain Annuity Payments to Blind Veterans***

Like all Americans, we recognize the great debt owed to the men and women, who have sacrificed for us as members of the armed services, and the third proposal to exclude State annuity payments to blind veterans from income consideration for SSI benefits, could serve as a means to recognize that sacrifice. An exclusion of State annuity payments for veterans who, by definition, are blind and also of limited means, may be reasonable and appropriate.

***Conclusion***

In conclusion, the AmeriCorp and Military Service Income proposals correct inequities that exist in current SSI and law, and the Blind Pension exclusion could provide humanitarian assistance to those who have served our country so well.

We would be happy to work with the Subcommittees on these proposals, and SSA looks forward to continuing to work with Congress in our ongoing efforts to promote sound public policy and improve program administration. Thank you and I will be glad to answer any questions you may have.

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Chairman NEAL. Thank you, Mr. Rust.

The Chair would now like to recognize Mr. McDermott for inquiry.

Mr. MCDERMOTT. Thank you, Mr. Rust, for coming up. I appreciate Social Security coming. Treasury was invited, but said they didn't have sufficient time to prepare themselves. So I am glad you got your act together and got up here.

Mr. RUST. You may have to wait until you hear my answers to your questions to see if we got our act together, Mr. McDermott.

Mr. MCDERMOTT. I will take my chances. I just want to clarify something for our understanding how this developed. Uniform allowances, are they unearned income or earned income?

Mr. RUST. Unearned income.

Mr. MCDERMOTT. Basic allowance for subsistence, unearned or earned?

Mr. RUST. Unearned.

Mr. MCDERMOTT. Reenlistment bonuses?

Mr. RUST. Unearned.

Mr. MCDERMOTT. Foreign duty pay?

Mr. RUST. Unearned.

Chairman NEAL. Demolition duty pay?

Mr. RUST. Unearned.

Mr. MCDERMOTT. Aviation continuation pay?

Mr. RUST. Unearned.

Mr. MCDERMOTT. Dive pay?

Mr. RUST. Unearned.

Mr. MCDERMOTT. Submarines?

Mr. RUST. Unearned.

Mr. MCDERMOTT. Hardship duty for a location?

Mr. RUST. Unearned.

Mr. MCDERMOTT. Hazardous duty?

Mr. RUST. Unearned, under current law.

Mr. MCDERMOTT. Why was it set up so that all these were made unearned income?

Mr. RUST. As a general rule—and, you know, we are an agency where there is always an exception to the general rule—but in the general rule, earned income is income against which the FICA tax

is applied. And if the FICA tax, the Social Security tax, is not applied, then it for the most part falls into the category of unearned income and is treated that way.

What the proposals before the Committee today will do is change the way those particular categories are counted. It will move almost all of those from unearned to earned income for purposes of calculation for the SSI program.

Mr. MCDERMOTT. For the purposes of SSI, for the calculation?

Mr. RUST. For the purposes of SSI.

Mr. MCDERMOTT. Now tell us what the difference is. Why is this better for somebody, to make it earned income for the purposes of SSI?

Mr. RUST. Earned income is treated in a different way because, one, you have the FICA tax application, but more importantly, there is a preference for work, an incentive for work, in the SSI program. So earned income has always had essentially a higher status than unearned income.

Let me give you an example that I think will probably clarify this a little bit. The family of an active duty servicemember could be receiving basic pay of \$1,459 per month, and a military housing allowance of \$1,087—a total of \$2,546. The housing allowance portion is counted as unearned income. Because of the less-favorable treatment of unearned income for SSI purposes, in calculating SSI eligibility for a disabled child, we would “count” \$499. In determining the benefit for the child, we deduct the countable income (\$499) from the Federal Benefit Rate (\$623 in 2007). Thus, the disabled child in the military family would receive \$124 in SSI benefits.

But an identical civilian family with the same total income of \$2,546 would receive all income through wages (earned income) and would pay rent via a portion of the wages. Thus, we would count only \$121 of the civilian’s wages in determining SSI eligibility for the disabled child. Assuming there is no other income to either family, the disabled child in the civilian family would receive \$502 in SSI benefits, nearly four times more than the child in the military family.

Mr. MCDERMOTT. It is okay to ask one of your staff people to come over and whisper in your ear.

Chairman NEAL. You would be surprised. We do it all the time. [Laughter.]

Mr. RUST. Roughly, we count about one-half of an individual’s earned income.

Mr. MCDERMOTT. You can have her come up and sit at the table with you, or one of your staff people.

Mr. RUST. Mr. Chairman, if that would be okay?

Mr. MCDERMOTT. Yes. Of course. We are actually trying to learn how it works. Okay? We are not trying to fry anybody.

Mr. RUST. Thank you. This is the Assistant Deputy Commissioner, Marianna LaCanfora.

Ms. LACANFORA. Good morning. To make a complex issue—

Mr. RUST. Complex.

Ms. LACANFORA. Excuse me. Good morning. To make a complex issue as simple as possible, I think maybe the easiest way to explain it is that with earned income, wages, we only count that



earned income—we generally take one-half of it, and we count it against the benefit amount; whereas with unearned income, we actually count almost the total unearned income, dollar for dollar, against the benefit amount.

So basically, we penalize a beneficiary based on the receipt of unearned income more heavily than we do earned income. And the genesis of that I believe has to do with the fact that we were trying to provide an incentive for people to return to work, so wages—in other words, earned income—are treated more favorably under the SSI program.

This legislation will bring the treatment of income into parity for military families.

Mr. MCDERMOTT. Okay. Thank you very much. I see my time is exhausted, so I will leave the technical questions to other Members if they wish. Thank you, Mr. Chairman.

Chairman NEAL. Thank you, Mr. McDermott.

The Chair would now like to recognize Mr. Weller for inquiry.

Mr. WELLER. Thank you, Mr. Chairman. Commissioner, welcome before our Subcommittees this morning.

Mr. Reynolds has a proposal which eliminates the offset of SSI benefits to reflect State blind veterans annuity. And I understand there are four States that currently operate such a program, New York, New Jersey, Pennsylvania, and Massachusetts.

Are you aware of any other States that are considering adding an additional program similar to this proposal?

Mr. RUST. We are not aware of any such States at this time.

Mr. WELLER. Do you believe that enactment of Mr. Reynolds' legislation in the law would encourage other States to start providing this type of assistance for blind veterans?

Mr. RUST. The way the language is written in the draft we have, it would cover any State that would choose to enact such a program. So I think the answer probably is yes, it would, or it could.

Mr. WELLER. So it would make it more attractive for a State such as mine to provide such assistance. You would believe that based on your experience?

Mr. RUST. Well, I think the State would probably act because of its own dynamic, its own desire to serve the veterans within that State. But I think the more favorable treatment under SSI would certainly be a favorable consideration.

Mr. WELLER. Is there any reason this special treatment should be solely limited to blind veterans? For example, do States operate State annuities for other disabled veterans?

Mr. RUST. The disability rules under Social Security already have a preferential treatment for blind, both veterans and non-veterans. So it is quite dramatic in terms of the more preferential treatment for blind in both the SSDI program and the SSI program for disability. So I think there is sort of a history of showing preferential treatment to the blind.

Mr. WELLER. And explain then for other annuities for other types of disabilities where there are annuities provided at the State level, how are they treated differently compared to for blind veterans?

Mr. RUST. The general rule is that if the annuity or if the benefit at the State level is either State or locally funded, we exclude

that income, that payment, from consideration for SSI benefits. So it is excluded. If there is some Federal money in it, like in TANF, then it is counted as unearned income for the calculations.

So as long as the State were to set up a program that was 100 percent State or locally paid and needs-based, it would be excluded from SSI consideration.

Mr. WELLER. And has your agency taken a position on Mr. Reynolds' proposal?

Mr. RUST. We are looking at it. We haven't had time to cost it all out and do the interagency review. That is why my testimony I think is basically quite favorable to the provision. But we have not yet been able to get the Administration position on it.

Mr. WELLER. And how quickly can you provide an Administration position for Mr. Reynolds?

Mr. RUST. A lot of that is outside the control of the Social Security Administration because OMB would really be the one that would coordinate that. So I don't know that I could give you an estimate. We will request it immediately.

Mr. WELLER. And has the Social Security Administration made a recommendation to OMB on what position the Administration should take?

Mr. RUST. They cleared my testimony for today with the statement that it was fair and appropriate and reasonable to look at this provision.

Mr. WELLER. So you have recommended then that they support this proposal?

Mr. RUST. It is our position that this is a reasonable thing to do, an appropriate thing to do. We would be supportive of it.

Mr. WELLER. Thank you, Commissioner, and thank you for being here this morning.

Thank you, Mr. Chairman.

Chairman NEAL. Thank you, Mr. Weller.

The Chair would now recognize Mr. Herger for inquiry.

Mr. HERGER. Thank you, Mr. Chairman.

Mr. Rust, I think it is really outstanding that we have a program that is working to get the disabled employed and being productive, and such valuable service through the AmeriCorps. And I would like to explore that further if I could.

Could you tell me how many hours of work does the average AmeriCorps participant perform per year?

Mr. RUST. Mr. Herger, I guess you would have to direct that question really to the AmeriCorps agency. I don't know that.

Mr. HERGER. Is there anyone on your staff that might have an idea?

Mr. RUST. No. I mean, that is a different program, a different agency.

Mr. HERGER. Could you tell me maybe about SSI recipients who—what is the typical number of hours that they work or perform—I don't know if you know that—per year?

Mr. RUST. You mean in terms of the ones who would be working in one of these—either the military or in the AmeriCorps program getting SSI—

Mr. HERGER. Yes.

Mr. RUST [continuing]. And being impacted by this provision? The number is probably very small. For one of the provisions, we think there are probably about 3,000 people currently receiving SSI, and about maybe 200 more a year who could become eligible. And for the other provisions, we are assuming fewer than 500. So we are probably talking in total of somewhere in the neighborhood of 3,000 to 3,500 people who could be affected by all three of these SSI provisions in this bill.

Mr. HERGER. Any idea what the stipend is or other assistance that they receive for the service that they do, those that are involved?

Mr. RUST. No, sir.

Mr. HERGER. Okay. I thank you, Mr. Chairman. I yield back my time.

Chairman NEAL. Thank you, Mr. Herger.

The Chair will now recognize Mr. Reynolds to inquire.

Mr. REYNOLDS. I thank the Chairman.

I appreciate the Social Security Administration's comments of support of the legislation that is included on the annuity payments. My understanding in my home State of New York, the State began annuities under World War I, and it was about 500 per month, and raised it to a thousand.

And we find that unfortunately, just due to the current law, all that money goes back as the annuitant has to return that money because it caps. So I think we are moving in the right direction both on inflation, plus it is just plain the right thing to do. We have seen a lot of testimony on it. And I appreciate your comments, and will look forward to what you think the cost is.

Also, when I originally have looked at the legislation over different periods of time since 2000, there were times where I restricted it to the four States because that is what the previous Chairman would have wanted, if I could have even advanced this legislation. And now I am pleased to see that Chairman Rangel and others are exploring the aspect that any State that may want to participate can.

But I think we don't want to lose sight in the testimony of inquiry from my colleague, Mr. Weller, that the States still have to put up the cash here. And so States will have to reflect: Do we want to follow the four States that are already doing this with some sort of an investment into an annuity program? And I think that is part of the checks and balance, is the State's own participation in the program. And I appreciate you, Mr. Rust.

And I know this is not your domain, but I was also disappointed on the recent decision of the Social Security Administration to use the Buffalo office as a pilot for closing the office early. I will be sending a letter to the Acting Commissioner, and I hope you will convey that, and will follow up on that shortly.

We have an older population in upstate western New York, and seeing face-to-face solutions versus toll-free numbers I think would go a lot farther along. And I will make an appeal that while the pilot is underway, we can't seem to make better accommodations to take care of people we are serving. Thank you.

Mr. RUST. Mr. Reynolds, if I could, that is another Deputy Commissioner's area. And I believe that Chairman Rangel is scheduling

a meeting for Members of the Committee and Ms. McMahon, the Deputy Commissioner for Operations, to discuss these issues. I think it is scheduled within the next week or so. I don't remember the exact date, but I think that we are very interested in talking to the Members about the issue.

And let me just—if I can just digress for a second, Mr. Chairman, I think it is helpful if you would understand that we are an agency under some stress right now. In January, February, and March of next year, we will slip under 60,000 employees for the first time since 1973.

And we have the baby boomers about to retire, and other workloads. So we are feeling a lot of stress across our programs right now in terms of how we can maintain the kind of service the public expects from us with somewhat more constrained resources.

So, I would just add that as a sort of an aside. But it is something that is very much on our minds as we try to run these programs.

Mr. REYNOLDS. Sir, if I could reclaim my time for just a second, I would just—in the opening of my thought on this, I said I realize that is not your domain. But because you have taken such time to want to defend the Administration's position, let me just be perfectly clear.

I intend to watch the pilot program. It is an administrative decision, and I will register my displeasure with the Acting Commissioner. But nevertheless, we are taking less face time of the Social Security Administration dealing with both seniors and others who are dependent upon getting answers. And that is a concern to me in western New York. And I will be watching very closely as to the outcome of your pilot program.

Mr. RUST. If you would want to meet directly with Ms. McMahon, I am sure she would be more than glad to meet with you on that.

Chairman NEAL. Mr. English is recognized to inquire.

Mr. ENGLISH. Thank you, Mr. Chairman.

Mr. Rust, I think your point is very well taken, that your agency is under a great deal of pressure, and I suppose on that point, I would like to particularly follow up with regard to this legislation.

The draft legislation suggests that the three SSI changes for participants will be, and I quote, "effective with respect to benefits payable for months beginning after 60 days after the date of enactment of this Act." So in general, that would be no more than 3 months.

Given the fact that your agency is under stress, is that enough time for SSA to make sure that the correct payments are being made?

Mr. RUST. We think so.

Mr. ENGLISH. I note that the legislation does not provide for any additional administrative funds. And SSA has recently expressed concern about having sufficient administrative funding to handle current workloads. Do you see any issues on that point raised by this legislation?

Mr. RUST. If the numbers are about what I quoted a little bit ago, probably somewhere between 3- and 4,000 people, we can han-

dle that within our current budget situation, remembering that we are across the board under stress.

Mr. ENGLISH. Very good. On a different point, I think that our disability system has to do everything it can to encourage disabled Americans to work when they are able to. From your perspective, is there any evidence that SSI recipients have refrained from participating in AmeriCorps as a result of the disincentives that this legislation addresses, essentially current law?

Mr. RUST. I don't think we would have any way of knowing that.

Mr. ENGLISH. In your view, if the proposal before us is adopted, do you have any estimate of how many more SSI recipients might participate at AmeriCorps? You wouldn't have a way of evaluating that?

Mr. RUST. We wouldn't have any way of even guessing on that.

Mr. ENGLISH. Thank you, Mr. Rust. And thank you for your testimony.

Mr. RUST. Thank you.

Chairman NEAL. Are there any other questions? The gentlelady from Nevada is recognized to inquire.

Ms. BERKLEY. Thank you, Mr. Chairman. And thank you, Mr. Rust, for coming and giving us your testimony.

I am not sure that this is pertinent to what we are discussing, but I wanted to follow up on what Mr. Reynolds said. In addition to having the fastest growing veterans population in my congressional district, I have the fastest growing senior population.

Because of the large number of complaints, and I recognize that this doesn't come under your domain, but in response to an amazing number of telephone calls from my constituents and telephone calls from the employees of my Social Security offices in Las Vegas, I paid a spot visit to the newest facility.

And I can tell you that the line was around the block when I—the employees are stretched beyond what they can possibly, possibly do to deliver necessary services to my constituents. And my constituents, many of them, especially the older women, there wasn't enough seating. And this is a brand new facility. And they were in tears because they had spent hours in line and couldn't spend another minute on their feet.

And this is a situation that absolutely has to be corrected. It is horrible. And again, I just wanted to put this on the record for the future. And I am sure you are aware of these problems.

Mr. RUST. We are under pressure to look for ways to make the program more administrable, if you want to use that term, to look for ways to simplify the program.

That is one of the reasons, in the testimony today, one of the things we appreciate about the provisions in this bill are that they will help to make this program a little easier to administer because we have a very complicated program. It is a very complex program.

And as I mentioned, just 5 years ago we had 66,000 employees. So we are down 6,000, roughly, in the last 5 years. So it is a huge workload with a constrained workforce. So we do the best we can, but we are aware of those problems.

And again, I would suggest that you may want to bring this to Linda McMahon's attention, our Deputy Commissioner for Operations, who is working with these problems day to day.

Ms. BERKLEY. I will, and I thank you.

Mr. RUST. Thank you.

Chairman NEAL. Thank the gentlelady.

Mr. Rust, we want to thank you for your testimony. And now we would like to have the third panel assemble and take position.

Mr. RUST. Mr. Chairman, I started to try to give two examples, which I didn't do very artfully, of how income, unearned and earned, worked differently. When I correct the record, may I correct that example?

Chairman NEAL. Without objection, you certainly can.

Mr. RUST. Thank you, sir.

Chairman NEAL. What I would like to do now is to recognize the Members of the Committee to introduce our guest panelists. And I would like to begin by recognizing Mr. Larson for an introduction.

Mr. LARSON. Thank you, Mr. Chairman. And thank you again for holding this hearing on this very important legislation.

Mr. Chairman, may I for the record seek unanimous consent to introduce the testimony of Chief Steven B. Westerman, the President of the International Association of Fire Chiefs, an organization that has worked very hard on this, who is not here today to testify?

Chairman NEAL. Without objection.

Mr. LARSON. And now, Mr. Chairman, I know that the legislation before us in this hearing is vitally important and compelling listening to the testimony of men and women who wear the uniform, and especially our veterans that are in the field.

But it wasn't lost on Members of Congress, and certainly not on John McAuliffe, the gentleman I am going to introduce, that it wasn't the Army, the Navy, or the Marines, the FBI, or the CIA that responded at that World Trade Center, at the Pentagon, or in the fields of Pennsylvania. Indeed and in fact, it was our men and women who are the front lines of our effort here, our firefighters, police officers, and emergency medical teams.

And it is my great pleasure to introduce to you today a gentleman who has been a volunteer firefighter and in that service since 1958. John McAuliffe served as fire chief of the Wethersfield Fire Department in my district from 1991 to 1996. I worked very closely with him as Senate President in the State of Connecticut on a number of issues as it relates to firefighters and volunteers in general.

He is currently the Connecticut State Director of the National Volunteer Fire Council, as well as the Chairman of the Legislative Committee of the Connecticut State Firemen's Association, and understands these issues thoroughly.

Like most events, as Mr. McDermott indicated earlier, we learn of things that are of importance through our constituents. And having traveled around to several volunteer fire departments and listened to a number of them, and especially from the Chairman's district in Massachusetts and mine, it is a great honor for me to introduce a man who is knowledgeable on all these fronts, John McAuliffe.

Chairman NEAL. We thank you.

And now the Chair would like to recognize Mr. Reynolds for an introduction.

Mr. REYNOLDS. I thank the Chairman.

It is my pleasure to introduce Deputy Director of the New York State Division of Veterans' Affairs, Michelle LaRock, who has served under both Governor Pataki and now Governor Spitzer. Ms. LaRock had dedicated more than a decade to public service in various capacities in my home State. In her current position, she draws on a wealth of experience and expertise gained through her own experience in the military as a veteran.

She is a native of upstate New York, and has served 4 years in the Marines, including a tour of duty in the Middle East during the Persian Gulf War, as a lance corporal specializing in logistics and earning a Southwest Asia Service Medal.

Appointed as Deputy Director in December 2005, Ms. LaRock works closely with Director George Basher and various field Deputy Directors in evaluating existing programs and recommending new practices and strategies to enhance the agency's services provided to New York's veterans community. She has considerable familiarity with New York's State annuity for blind veterans, and she has seen firsthand the challenges that current Federal SSI law poses both for blind veterans and for her agency in the administration of this annuity program.

On behalf of the Ways and Means Committee, welcome, and we look forward to your testimony.

Chairman NEAL. Thank you, Mr. Reynolds.

And now I would like to recognize the gentleman from North Dakota, Mr. Pomeroy, for an introduction.

Mr. POMEROY. Thank you, Mr. Chairman, and I appreciate being able to sit in with the Committee in the hearing today.

We have a law on the books which guarantees the right of returning Guard and Reserve soldiers to seamlessly resume their private pension plan participation when they return to civilian employment. But there is a gap in this law, a very important gap that needs to be addressed. The law does not anticipate the circumstance where our soldier cannot return to work and resume pension plan participation because of losing their life while under deployment in service to our country.

Essentially, under many pension plans, under this circumstance there is no survivor's benefit. There is just a return of moneys paid into the plan by the plan participant, our deceased soldier. This needs to be fixed, and I am very pleased to tell you that Congressman Doc Hastings and I have introduced a bill to address this. The bill is known as the Heroes Act.

Testifying on it today will be Victoria "Torrie" Johnson. Victoria is the surviving spouse of Major Alan Johnson. He was born and raised on a farm in North Dakota and lost his life in Iraq, an IED attack, on January 26th of this year.

Torrie, like her late husband, is an extraordinary person. She is very dedicated to service. Even while she deals with her personal grief, she serves as the family support volunteer coordinator for the Washington State Army National Guard doing her dead level best to help other families.

Congressman Doc Hastings and I have been very grateful to Torrie for calling her situation to our attention. And we have so admired the work she has done in the State of Washington to try and

get that fixed at the State level. But this really requires a Federal fix.

She spent her own frequent flyer miles to come here to tell you her story today. And we just can't feel more gratitude for the courage and the determination of Torrie Johnson to get this situation fixed.

Chairman NEAL. We thank the gentleman.

And now let me introduce Mr. John Downing. Mr. Downing is unyielding in his advocacy on behalf of veterans everywhere. He is the President and Chief Executive Officer of United Veterans of America. And he has spoken for the incarcerated veteran, the mentally ill veteran, the homeless veteran, and the addicted veteran, as well as anybody in America.

And with that, I would like to recognize Mr. Downing.

**STATEMENT OF JOHN F. DOWNING, PRESIDENT AND CHIEF EXECUTIVE OFFICER, UNITED VETERANS OF AMERICA, INC., LEEDS, MASSACHUSETTS**

Mr. DOWNING. Thank you, Chairman Neal, Congressman McDermott, Members of the Committee. On behalf of the hundreds of homeless veterans I serve every year, I am honored to be here today testifying on the Heroes Earnings Assistance and Relief Tax Act of 2008.

I have the privilege of serving as President and CEO of United Veterans of America in Leeds, Massachusetts, with facilities serving homeless veterans also in Pittsfield, Massachusetts. We serve upward of 200 homeless veterans every day. Our program is based on a continuum of care, ranging from the treatment of trauma and mental health to substance abuse counseling, shelter, food, job training, and permanent housing. Our partners include the U.S. Department of Veterans Affairs, U.S. Department of Labor, HUD, and many State and local agencies.

Shelter, treatment, and hope are the cornerstones of our work. The UVA hosts 120 men and women in transitional living on site at the VA Medical Center on a campus in Leeds, Massachusetts, a small section of Northampton, Massachusetts. Sixty more vets live in transitional housing in the Berkshire Veterans Residence in Pittsfield, Massachusetts, which opened in 2004. And there are 10 new studio apartments, funded through the U.S. Department of Housing and Urban Development, which provide permanent housing for homeless veterans with a disability at the Pittsfield site.

We serve veterans primarily from the northeast United States. A few are referred to us from across the country. The average age of our population is 54, but the mean age is trending younger as we see more veterans of Operation Enduring Freedom and Operation Iraqi Freedom.

Approximately 85 percent of our veterans suffer mental health and substance abuse issues. Some 10 percent are elderly, and by elderly we mean age 70 or older. Five percent of our veterans are women. More than 25 percent of our veterans have been diagnosed with post-traumatic stress disorder, and 28 percent are on parole and probation, the majority of them from their addictions. Forty-two percent of the veterans in our care on any given day are members of our minority community.



I could go on, but it would be easier for you to take a look at our website, [www.unitedveterans.org](http://www.unitedveterans.org), to learn more about the work we do and the extent of the work we do. I am supported by an intensely dedicated staff and a committed board of directors, and I enjoy a wonderful collaborative relationship with the Leeds VA Medical Center and the VA headquarters here in Washington.

Currently, we are in the predevelopment stage of a 39-unit limited equity cooperative apartment development, to be built on our site in Pittsfield for formerly homeless veterans. This development will be owned cooperatively and managed by the formerly homeless veterans. The apartments will meet the highest standards of green building, incorporating energy efficiency, renewable energy, and alternative fuels. The housing will be sustainable in perpetuity for low-income veterans.

Additionally, with reasonable support from the Federal Government, we can dedicate a portion of each veteran's rent to an individual deposit account, thus enabling formerly homeless veterans to realize the American dream of home ownership and building wealth through equity. This changes the end of the story for homeless veterans of U.S. military service.

I would add that at this point, the Federal role in developing this housing has been minimal. In fact, we understand that the IRS rules prohibit the use of the Low-Income Housing Tax Credits in building cooperatives. I would suggest that this Committee take a look at that rule.

I believe that, however unintended, restrictive IRS rules governing the Low-Income Housing Tax Credit probably have prevented the creation of alternative models of supportive housing for people with disabilities.

In general, to the best of my knowledge, the Federal Government has no program that supports exclusively the creation of permanent, affordable housing for veterans. I realize that this is a policy decision for consideration of the entire Congress and Administration, but I think it is something that needs to be brought to the forefront of our consciousness, that veterans are not a preferred class of people in the United States of America as we would legislate that for housing.

Back home in the Commonwealth of Massachusetts, and under both Governor Romney and Governor Patrick, they are stepping up to the plate with State money and a willingness to support with Federal resources such a project such as with project-based Section 8s and VASH subsidies and HOME funds. At this point, however, Federal participation has been limited to relatively small direct appropriation from HUD, procured through the good offices of Congressman John Olver and Congressman Richard Neal. The UVA needs to complete this project with a reasonable, minimal debt load, and the Federal Government must become a partner with us in this.

By the way, VASH, Veterans Affairs Supportive Housing, is a subject of the Federal Section 8 program that hasn't been funded in years. Both the House and the Senate this year are considering funding VASH. We emphatically endorse funding VASH, and we would suggest that VASH subsidies be flexible—that is, that the

VASH subsidies could be both tenant-based and project-based subsidies.

I would add parenthetically that although not the purview of this Committee, I would ask Congress to amend the Fair Housing Act to include veterans of U.S. military services as a protected class. I mention this because if we are successful in creating permanent housing for veterans, we run the real risk of violating the fair housing laws by giving veterans priority—again, a Catch-22 situation which I am sure is unintentional, but which I am sure can be fixed.

I mentioned changing the end of the story for homeless veterans, and I would like to go back to that just for a minute. Typically, the veterans in our care, both men and women, cycle from the streets to the shelter, back to the neighborhood, and ultimately back to the shelter.

Along the way, these men and women lose everything. It is hard to imagine, but typically every contact with family and community has been lost. Jobs, houses, friends, self-respect, personal dignity, personal hygiene—it is all gone. The dignity is gone for the men and women when they walk into my facility.

Only by creating permanent, affordable housing for veterans can we change this pattern. By creating permanent, affordable housing opportunities, whether it is rental, cooperative, or homeownership, and by bringing comprehensive support services to the veterans in this housing, we can change the end of the story once and for all. In the long run, permanent supportive housing is less expensive than shelter. And finally, our veterans deserve better than what we are doing today.

The beauty of the project that we are building in Pittsfield is that it is replicable. With a little help from the banks, States, and Federal Government, this type of housing can be adapted for any part of the country. We are working now with the VA Medical Center in Leeds to create another limited equity cooperative on the grounds of the medical center.

Across the country, VA Medical Center campuses typically enjoy lots of unused green space. A project like ours could be built on the grounds of any VA Medical Center. Working with the VA, nonprofit developers could lease the land at a nominal rate while taking the entire responsibility for building and operating the permanent housing on that land. No additional expense would accrue to the VA, and the VA Medical Center would have a new outpatient population at its doorstep.

But the best reason for doing this is that it really serves veterans. And that is what we are talking about today, serving veterans. Now, I am not the expert in the Tax Code. But I do know that any portion of this Tax Code that could be changed to benefit veterans should be changed. Our veterans have paid the price. They don't need to be nicked and dimed by the Tax Code. If anything, we ought to be creating tax credits for military service.

Soon, we hope, we will be welcoming home the veterans of Operation Enduring Freedom and Operation Iraqi Freedom. After all the celebrations, will we once again turn to other business and forget our veterans? Twenty years from now, will someone be sitting in this Chair testifying to the needs of homeless veterans?

I hope not. And I believe by the commitment that this Committee is making to begin to look at all the little bureaucratic chinks that make it difficult for people to succeed, that working together we will change the end of the story for all our veterans. Thank you.  
[The prepared statement of Mr. Downing follows:]

**Prepared Statement of John F. Downing, President and Chief Executive Officer, United Veterans of America, Inc., Leeds, Massachusetts**

Congressman Neal and Congressman McDermott, Members of the Committee: On behalf of the hundreds of homeless veterans served every year by United Veterans of America, I am honored by your invitation to be here today testifying on the "Heroes Earnings Assistance and Relief Act of 2007."

I have the privilege of serving as President and CEO of United Veterans of America, Inc. Based in Leeds, Massachusetts, with facilities serving homeless veterans in Pittsfield and Leeds, UVA serves upwards of 200 veterans every day. Our program is based on a continuum of care, ranging from the treatment of trauma and mental health issues to substance abuse counseling, shelter, food and other necessities, job training, and permanent housing. Our partners include the U.S. Department of Veterans Affairs, the U.S. Department of Labor, HUD, and many State and local agencies. Shelter, treatment, and hope are our cornerstones.

UVA hosts 120 men and women in transitional living on site at the VA Medical Center campus in the Leeds section of Northampton, Massachusetts. Sixty more vets live in transitional housing at our Berkshire Veterans Residence in Pittsfield, Massachusetts, which opened in September 2004. Ten new studio apartments, funded through the U.S. Department of Housing and Urban Development, provide permanent housing for homeless veterans with a disability at the Pittsfield site.

UVA serves veterans primarily from the northeast United States. A few are referred to us from across the country. The average age of our population is 54, but the mean age is trending younger as we see more veterans of Operation Enduring Freedom and Operation Iraqi Freedom. Approximately 85 percent of our vets suffer mental health and/or substance abuse issues. Some 10 percent are elderly, at age 70 or older. Five percent of our vets are women. More than 25 percent of our vets have been diagnosed with post-traumatic stress disorder (PTSD); 28 percent are on parole or probation; 42 percent of UVA's vets are minority.

I could go on, but I would invite you to take a look at our website at [www.unitedveterans.org](http://www.unitedveterans.org) to learn more about UVA. I am supported by a dedicated staff and a committed board of directors, and I enjoy a wonderful, collaborative relationship with our VA Medical Center and with VA Headquarters here in Washington.

Currently we are in the pre-development stage of a 39 unit limited equity cooperative, to be built on our site in Pittsfield, Massachusetts. The development will be owned cooperatively and managed by formerly homeless veterans. These apartments will meet the highest standards of "green" building, incorporating energy efficiency, renewable energy, and alternative fuels. This housing will be sustainable in perpetuity for low-income veterans. Additionally, with reasonable support from the Federal Government, we can dedicate a portion of each veteran's rent to an Individual Development Account (IDA), thus enabling formerly homeless veterans to realize the American dream of home ownership and building wealth through equity. This changes the end of the story for homeless veterans of U.S. military service.

I would add that, at this point, the Federal role in developing this housing has been minimal. In fact, we understand that IRS rules prohibit the use of the Low Income Housing Tax Credit in building cooperatives. I would suggest that this Committee take a close look at that rule. I believe that, however unintended, restrictive IRS rules governing the Low Income Housing Tax Credit probably have prevented the creation of alternative models of supportive housing for people with disabilities. In general, to the best of my knowledge, the Federal Government has no program that supports exclusively the creation of permanent, affordable housing for veterans. I realize that this is a policy decision for the consideration of the entire Congress and the Administration.

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By the way, VASH—Veterans Affairs Supportive Housing—is a subset of the Federal Section 8 program that hasn't been funded in years. Both the House and the Senate this year are considering funding VASH. We emphatically endorse funding VASH. And we would suggest that VASH subsidies be flexible, that is VASH subsidies could be both tenant-based and project-based subsidies.

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I mentioned changing the end of the story for homeless veterans, and I'd like to go back to that. Typically, the veterans in our care, both men and women, cycle from the streets to shelter, back to the old neighborhood and, ultimately, back to shelter. Along the way, these men and women lose everything. It's hard to imagine but, typically, every contact with family and community has been lost. Jobs, houses, family ties, self-respect, sobriety, mental health, personal hygiene—all gone. Dignity—gone. At UVA our vets come to see each other as their community. Only by creating permanent, affordable housing for veterans can we change that pattern. By creating permanent, affordable housing opportunities, whether it's rental, cooperative, or home ownership, and by bringing comprehensive support services to the veterans in this housing, we can change the end of that story once and for all. In the long run, permanent supportive housing is less expensive than shelter. And, finally, our veterans deserve better than what we're doing today.

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Chairman NEAL. Thank you, Mr. Downing.

Ms. Johnson, we are honored by your presence. Would you proceed?

**STATEMENT OF VICTORIA C. JOHNSON, WIDOW OF MAJOR  
ALAN R. JOHNSON, U.S. ARMY RESERVE, YAKIMA, WASH-  
INGTON**

Ms. JOHNSON. Good morning, Chairman Neal and Chairman McDermott, and Ranking Members English and Weller. Thank you so much for allowing this opportunity to share the concerns of our military personnel and families.

Again, my name is Victoria Johnson. My husband was Major Alan R. Johnson, who was killed January 26, 2007, in Iraq. I want to tell you a little bit about my husband. He has 26 years military service, okay, combined with National Guard and Reserve. It started in North Dakota, with the 141st Engineer Battalion. Moving to Washington State, he was with the 81st Brigade, 303rd Armor.

Just recently, before his service in Iraq, he was attached to the 402nd Civil Affairs Battalion from New York. The men that he went over to Iraq with, many of them were firsthand part of 9/11.

As a civilian, my husband was a sergeant for Yakima County Department of Corrections, so he was a public servant both ways. Many of the men and women that he was over there with—when you are talking Reservists and National Guard, whether it be Army Reserve, National Guard, many of them are public servants here. They may start out active duty military, and then they have it in their heart. So they are over here in our country becoming—I mean, they go to firemen. They go to law enforcement. They go to any type of a public servant field.

So it is almost a dual purpose that they have. The experience that they have here in this country in their jobs, and not just law enforcement, not just the fire department, but financial advisors, everything—with the Civil Affairs, they were over there helping the Iraqi government build their government. They were working with the Iraqi people. They took what they had with their civilian jobs here to help over there.

So it was very important, those skills that they had here as civilians. And I just want that recognized, that part of the strength of our military is the strength that we give our individuals in this country as civilians. It is very important.

I was married to him for 19 out of those 26 years. And I believe that the strong leader that he was depended a lot on the strength his family had. We were a team. We worked together and we supported each other. The stronger those families are here at home, the stronger they can be, whether they are here or over there. So a lot of the focus needs to be on those families so that they can do the jobs that they need to do and not worry about those families.

He had 15 years working for the county, and there was a State pension. Now, he was climbing that ladder with Yakima County as a sergeant. He planned on coming back, being promoted to chief, becoming administrator. In no way did he not plan on coming back. In no way did he not plan on moving up that ladder.

I received a letter from the State, because it was a State pension plan at the county, saying that he would only be given the money that he put in as his contributions. There would be no matching contributions. My husband has always fought for what is right, and I wanted to continue doing so.

And he worked hard for that pension and our future. And part of my connection with him is I want to continue to have the future that we planned together to have. And receiving that letter saying that I would only get what he put in was just a slap in the face on top of the pain.

I cannot explain to you the pain involved when you have military people come to your door at night in uniform. You know, you already know—from the movies and everything else—you already know what they are going to tell you. The pain is unbelievable, and I don't wish anybody to have to go through it.

But then to deal with the problems afterward, what I did is with help from the Representatives in Washington State, we went to Olympia to find out that—I don't know quote unquote or how it works or anything, but it sounds like he was the first State em-

ployee actually killed in action since Vietnam. And really, it is all things that just haven't been changed since then. It is technicalities, wording, paperwork. They had never dealt with the situation before.

He was 44 years old when he died. He did not quit his job. He was being treated as though he was terminated and quit. He didn't do that. He was over serving our country, and was killed.

Because the pension plan considered him voluntarily terminated, quit, I mean, it just, like I said, would only pay me that. But if he had been an active employee at that time and still considered and everything, the survivor benefits paid to the family would have been more.

The bill would assure that the pension survivor benefits would be paid as if he had returned to work with Yakima County. So that is what I did in Olympia, is to try to have it taken care of.

This picture here, right here, these are the men that were with my husband when he died. Those are Reservists, each one of those. And you have a paramedic from New York in the New York Fire Department. You have a carpenter. You have financial advisors. All these people are the type of people that we are talking about.

And many of these are, again, public servants. If they had been killed over there, they would be dealing with exactly the same thing that I am dealing with. Their family would be faced with exactly the same thing.

I urge you to make sure that they and their families can continue to rely on the survivor benefits that they have earned through their civilian employers' pension plans. I ask that their families get the benefits that their spouses worked for before they were called to serve our country on active military service.

Again, I worked with the Washington State Legislature to change its pension plan to recognize the sacrifices that members of the Guard and Reservists may be called to make for our country, and I urge the U.S. Congress to do the same. Our Guard and Reservists should know that the families they leave behind will be honored to have the future that they have worked so hard to provide. And again, their strength over there is going to be the strength they have here. They need to know that the country they are sacrificing everything for will take care of their families.

We have a change in the type of military serving our Nation. Over 81,000 Reservists and National Guard members have been called to duty and have responded to that call. The world of being married to a Reservist or a member of the National Guard has changed in ways that they—there is no way 20 years ago that we would have known this.

Today my life has changed. Oh, yes. It has been thrown upside down and backward. But my husband always said there was light in the tunnel. He always—he never gave up. It was always win/win. In fact, I want you to know that this binder was the one that he had in Iraq with him. So it went over there, and it stays with me.

And in the back of this book, there are a couple of quotes. For instance, one of the quotes he had in his book over there is, "The love of a wife is one of God's most precious gifts to man, and your love for her is worth whatever it costs." His love for his country

was also worth that. He believed in his country, and was willing to make that ultimate sacrifice. He also has the quote that: "The greatest thing a father can do for his children is to love their mother." I think the greatest thing that this country can do is to love the families of these soldiers.

Please, I ask you to make the changes in pension laws to support those families who find that their loved ones cannot come back to those former jobs. Please make sure that the families of veterans who have given their lives for their country receive the full benefits that their spouses have earned. And yes, there will be lots of parties for those that come back. But there are some that will not come back. Thank you.

[The prepared statement of Ms. Johnson follows:]

**Prepared Statement of Victoria C. Johnson,  
Widow of Major Alan R. Johnson, U.S. Army Reserve, Yakima, Washington**

Good morning, Chairman Neal and Chairman McDermott and Ranking Members English and Weller. I am Victoria Johnson and I live in Yakima, Washington. Thank you for holding this hearing today on the situations faced by the brave men and women who are serving in the military and their families.

My husband, Major Alan R. Johnson, was killed on January 26th of this year. He had 26 years of military experience, most of it in National Guard and Reserve. My husband, like many young men and women, joined the Army National Guard after he graduated from high school in 1981 and served as an enlisted member of the 141st Engineer Combat Battalion out of Jamestown, North Dakota. During his years in the National Guard he attended OCS and after moving to Washington was assigned to many leadership roles in the service. He transferred to the U.S. Army Reserve in 2003 and was deployed to Iraq in April 2006.

As a member of the Guard and the Reserves, my husband had a civilian job. During his 26 years of serving in the Guard, he also spent 15 years working for Yakima County. When he was deployed, Alan was working as a sergeant in the Corrections Department of Yakima County; he was a shift supervisor for one of the largest jails in Washington State. He gave the county 100 percent effort in what he did and planned to come back from serving in Iraq and move up the ladder. He would be looking at a chief position or possibly administrator of the county jail had he returned as he had planned.

When he was killed in Iraq, the pension covering the employees of the Yakima County Department of Corrections treated him as if he was somebody who volunteered to quit his job at the age of 44. My husband did not quit his job. He left to serve his country. As I mentioned, Alan planned to come back after he served his duty but he did not get that chance. Because the pension plan considered him a voluntarily terminated employee, the plan would have only paid me, as his widow, a survivor benefit equal to a refund of his contributions to the county pension; the money paid by Yakima County into the State pension plan would be kept by the retirement system.

Had Alan been an active employee of Yakima County, the survivor benefits paid to our family would have been more, as a full death benefit. The pension in Washington State had adopted language based on the requirements of the Uniformed Services Employment and Reemployment Rights Act (USERRA) but there is a gap in the protection under that law. USERRA requires that servicemembers return to their civilian employers to claim their benefits under the law. My husband could not meet that requirement. I am grateful that H.R. 2540, the Honoring Existing Retirement Obligations for Every Servicemember Act, which Congressmen Pomeroy and Hastings introduced, addresses the gap that I fell into when Alan was killed. The bill would assure that his pension survivor benefits would be paid as if he had returned to work with Yakima County.

The picture that you see in front of you are the men that were with Alan when he died. Those are your Reservists. All of those men in the Reserve have civilian jobs back home in the U.S. Their civilian experience enables each of them to bring a unique asset to our Nation's military. Those serving in the National Guard and the Reserve take the knowledge gained in their civilian occupations and bring that expertise with them as they serve in Iraq and across the world. They use their civilian skills to do good—supporting their missions in Iraq. It's a great asset.

While Alan was here at home, he and all Reservists were building a foundation for their families' future through the retirement benefits provided in their civilian jobs. When called to serve on active duty, they go to support our country in Iraq, or wherever else in the world they are needed.

I urge you to make sure that Reservists and National Guard members can continue to rely on the survivor benefits that they have earned through their civilian employers pension plans. I ask that their families get the benefits that our spouses worked for here before they were called to serve our country on active military service. I worked with the Washington State Legislature to change its pension system to recognize the sacrifices that members of the Guard and Reservists may be called to make for our country and I urge the U.S. Congress to do the same. Our Guard and Reservists should know that the families they leave behind will be allowed to have the future that they have worked so hard to provide.

We have a change in the type of military serving our Nation. Over 81,000 Reservists and National Guard members have been called to duty and have responded to that call.

The world of being married to a Reservist or member of the National Guard has changed in ways that I could not know 20 years ago when Alan and I were married. Today, my life has changed and so have the lives of many other military families. I ask you to make changes in the pension laws to support those families who find their love ones cannot come back to their employer. Please make sure they get the full benefits that their spouses have earned.

Thank you.

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Chairman NEAL. Thank you very much for your testimony, Ms. Johnson.

The House floor has now scheduled three votes, and the Committee Members are required to go over for those votes. So the Chair will declare a recess for approximately 20 minutes.

[Recess.]

Chairman NEAL. Let me reconvene our panel. And I would like to recognize Mr. McAuliffe for his testimony.

**STATEMENT OF JOHN MCAULIFFE, CONNECTICUT STATE DIRECTOR, NATIONAL VOLUNTEER FIRE COUNCIL, WETHERSFIELD, CONNECTICUT**

Mr. MCAULIFFE. I would like to thank the Chairman, Ranking Members, and other Members of the Subcommittees for the opportunity to be here today to express the views of the National Volunteer Fire Council on H.R. 943, the Volunteer Responder Incentive Protection Act. H.R. 943 would prohibit the Federal Government from taxing benefits provided by State and local units of government to volunteer firefighters and EMS personnel.

Volunteer firefighters and EMS personnel are essential to our Nation's safety and security. All- and mostly-all volunteer fire departments protect approximately 38 percent of the country's population and more than 70 percent of the country's land area.

A 2004 study by St. Joseph's University, in partnership with VFIS, which is the Volunteer Firemen's Insurance Service, revealed that volunteer first responders save the American taxpayers \$37.2 billion per year. Without volunteer first responders, many communities simply would not be able to afford to provide firefighting and emergency medical services to all.

According to the National Fire Protection Association, also known as NFPA, the number of volunteer firefighters in this country has decreased dramatically since the mid-1980s. In addition, NFPA statistics show that volunteer firefighters as a population are significantly older today than they were 20 years ago.



There are two tables and a more detailed explanation of the population issues facing the volunteer fire service that are included in the written testimony. However, I may want to point out that from the original printout, what happens when computers can't talk to printers properly, things change around, so it may be a little confusing. So if there is a question, our office can certainly clarify that for you.

To cope with the dwindling and aging population of volunteer emergency responders, some States and many local units of government have discovered that providing benefits to volunteer emergency responders helps boost retention and recruitment. Volunteer benefits come in various forms. Communities provide length of service award programs, sometimes known as fire pension programs or LOSAPs, for volunteer first responders; various tax and fee reductions; small cash payments for emergency calls responded to; reimbursement for expenses incurred; and a variety of others ranging from free gym memberships to award ceremonies. The types and levels of benefit vary widely by State and community.

Some States provide benefits, or at least authorize local units of government to provide benefits. Connecticut, New York, and Alaska have authorized, through enabling legislation, to have local units of government to provide property tax credits to their volunteer first responders. Delaware, Maryland, and South Carolina offer their volunteers State income tax credits.

The Federal Government does not provide volunteer first responders with any taxable benefits, but the Federal Government does tax the benefits provided by State and local units of government. Federal taxation of volunteer first responder benefits has several effects. The most obvious effect is to reduce the value of the benefit to the volunteer.

H.R. 943 excludes from gross income any property tax rebate or other benefit provided by State or local units of government to a member of a qualified emergency response organization. Excluding property tax rebates from gross income will be most beneficial in States like mine, where local units of government are allowed to offer up to \$1,000 in property tax rebates.

The other benefits that are not enumerated in H.R. 943 would cover a wide range of benefits that are provided to volunteer emergency responders in every State. There are so many different types of incentives provided to volunteer emergency responders across the country that it would be nearly impossible to list them all. The broad language used in H.R. 943 is extremely important so that States and communities will have the flexibility to provide whatever type benefit they find to be most effective as a retention and recruitment tool.

Federal taxation also imposes a significant administrative burden on the units of government in small rural communities, which rely heavily on volunteer emergency services, that have limited staff to process the paperwork. Many of these communities have no staff at all and rely on marginally compensated elected officials to perform all the administrative functions.

In addition to being an administrative burden, Federal taxation of benefits provided to volunteer first responders can also be confusing. Many communities issue volunteers 1099 tax forms when

they should be issuing W-2 forms, and vice versa. Small communities with severely limited resources often find the administrative and legal barriers associated with providing benefits to volunteer emergency responders prohibitive. By eliminating the Federal taxation on these benefits, H.R. 943 would make it much easier for smaller communities to provide them.

The Joint Committee on Taxation estimates that passage of H.R. 943 would cost the Federal Government \$1.58 billion over 10 years. Each year, the services provided by volunteers—and I say each year—results in a savings to the taxpayers of \$37.2 billion. The tax savings derived from volunteer first responders compared to the average year cost incurred by passage of H.R. 943 results in a cost-to-savings ratio of approximately 42 cents per \$100.

NVFC supports passage of H.R. 943, either as a stand-alone bill or as a part of a package of multiple tax proposals in one bill.

I would like to thank the Subcommittee for the opportunity to speak here today, and would be happy to take any questions at this time. Thank you.

[The prepared statement of Mr. McAuliffe follows:]

**Prepared Statement of John McAuliffe, Connecticut State Director,  
National Volunteer Fire Council, Wethersfield, Connecticut**

I'd like to thank the Chairmen, Ranking Members and other Members of the Subcommittees for the opportunity to be here today to express the views of the National Volunteer Fire Council (NVFC) on H.R. 943, the Volunteer Responder Incentive Protection Act, which would prohibit the Federal Government from taxing benefits provided by State and local units of government to volunteer firefighters and EMS personnel.

My name is John McAuliffe and it is an honor and a pleasure to appear before you today. I have been in the volunteer fire service since 1958, and served as Chief of the Wethersfield Fire Department from 1991–1996. I am currently the National Volunteer Fire Council's Connecticut State Director as well as the Chairman of the Connecticut State Firemen's Association's (CSFA) Legislative Committee. CSFA is a member of the NVFC, which represents the interests of the Nation's volunteer fire and emergency medical personnel who staff approximately 30,000 fire and EMS agencies nationwide.

Volunteer firefighters and EMS personnel are essential to our Nation's safety and security. All- and mostly-volunteer fire departments protect approximately 38 percent of the country's population and more than 70 percent of the country's land area. A 2004 study by St. Joseph's University in partnership with VFIS revealed that volunteer first responders save American taxpayers \$37.2 billion per year. Without volunteer first responders, many communities simply would not be able to afford to provide firefighting and emergency medical services at all.

According to the National Fire Protection Association (NFPA) the number of volunteer firefighters in this country has decreased dramatically since the mid-1980s. In addition, NFPA statistics show that volunteer firefighters as a population are significantly older today than they were 20 years ago. In order to improve retention and recruitment, many States and communities provide benefits to their volunteer emergency responders. Federal taxation of these benefits reduces the incentive for the volunteers and creates administrative problems for local units of government. By eliminating Federal taxation of these benefits, H.R. 943 would be a tremendous boost for volunteer first responder recruitment and retention efforts in communities around the country.

The number of volunteer firefighters in the country is decreasing. According to a National Fire Protection Association (NFPA) study, between 1983 and 1988, the number of volunteer firefighters in the country has decreased from close to 900,000 to approximately 800,000. Since 1988, the number of volunteers has fluctuated up and down but remained close to 800,000. Over that same period of time, the number of volunteer firefighters per person in this country has declined steadily by 26.7 percent.

**Table 1**  
**Number of Firefighters in the U.S., 1983–2005**

<b>Year</b>	<b>Total Number</b>	<b>Rate per 1,000 People</b>	<b>Career Number</b>	<b>Rate per 1,000 People</b>	<b>Volunteer Number</b>	<b>Rate per 1,000 People</b>
1983	1,111,200	4.75	226,600	0.97	884,600	3.78
1984	1,129,100	4.78	231,600	0.98	897,750	3.80
1985	1,077,950	4.52	238,500	1.00	839,450	3.52
1986	1,045,950	4.35	237,750	0.99	808,200	3.36
1987	1,060,000	4.36	243,200	1.00	816,800	3.36
1988	1,040,750	4.25	252,500	1.03	788,250	3.22
1989	1,020,700	4.12	250,600	1.01	770,100	3.11
1990	1,025,650	4.11	253,000	1.01	772,650	3.10
1991	1,033,600	4.09	261,800	1.04	771,800	3.05
1992	1,058,300	4.14	253,000	0.99	805,300	3.15
1993	1,055,050	4.09	259,650	1.01	795,400	3.08
1994	1,073,600	4.12	265,700	1.02	807,900	3.10
1995	1,098,850	4.18	260,850	0.99	838,000	3.19
1996	1,081,800	4.07	266,300	1.00	815,500	3.07
1997	1,079,050	4.03	275,700	1.03	803,350	3.00
1998	1,082,500	4.00	278,300	1.03	804,200	2.97
1999	1,065,150	3.90	279,900	1.03	785,250	2.87
2000	1,064,150	3.86	286,800	1.04	777,350	2.82
2001	1,078,300	3.85	293,600	1.05	784,700	2.81
2002	1,108,250	3.89	291,650	1.02	816,600	2.87
2003	1,096,900	3.77	296,850	1.02	800,050	2.75
2004	1,100,750	3.76	305,150	1.04	795,600	2.72
2005	1,136,650	3.82	313,300	1.05	823,350	2.77

*Source:* NFPA Survey of Fire Departments for U.S. Fire Experience (1983–2005).

Exacerbating the problems created by the decreasing number of volunteer firefighters, NFPA statistics show that volunteer firefighters as a group are aging. Table 2 on the next page shows three NFPA studies that measured the percentage of volunteer firefighters under 30, under 40, under 50 and over 50 in 1987, 1998 and 2005 (2005 is the last year that NFPA collected age profile information for volunteer firefighters and 1987 was the first). The long term trend is that the percentage of volunteer firefighters under 30 and under 40 is decreasing while the percentage of volunteer firefighters over 40 and over 50 is increasing. This data suggests that departments are having difficulty recruiting new members.

**Table 2**  
**Age Profile of Firefighters By Size of Community, 2005**

Size of Community	Mostly Volunteer Firefighters				Total
	Percent Firefighters under Age 30	Percent Firefighters Age 30-39	Percent Firefighters Age 40-49	Percent Firefighters Age 50 and up	
10,000 to 24,999	28.4%	31.2%	25.1%	16.3%	100.0%
5,000 to 9,999	31.0	29.4	22.5	17.1	100.0
2,500 to 4,999	29.5	28.4	23.1	19.0	100.0
Under 2,500	25.9	25.8	24.8	23.5	100.0

*Source:* NFPA Survey of Fire Departments for U.S. Fire Experience, 2005.

**Age Profile of Firefighters By Size of Community, 1998**

Size of Community	Mostly Volunteer Firefighters				Total
	Percent Firefighters under Age 30	Percent Firefighters Age 30-39	Percent Firefighters Age 40-49	Percent Firefighters Age 50 and up	
10,000 to 24,999	31.3%	32.1%	23.8%	12.7%	100.0%
5,000 to 9,999	33.2	30.3	22.5	14.1	100.0
2,500 to 4,999	33.5	29.4	23.4	13.7	100.0
Under 2,500	25.3	29.8	26.7	18.2	100.0

*Source:* NFPA Survey of Fire Departments for U.S. Fire Experience, 1998.

**Age Profile of Firefighters By Size of Community, 1987**

Size of Community	Mostly Volunteer Firefighters				Total
	Percent Firefighters under Age 30	Percent Firefighters Age 30-39	Percent Firefighters Age 40-49	Percent Firefighters Age 50 and up	
10,000 to 24,999	33.0%	33.8%	20.6%	12.6%	100.0%
5,000 to 9,999	35.8	32.4	19.1	12.7	100.0
2,500 to 4,999	34.6	32.5	19.3	13.6	100.0
Under 2,500	29.7	33.5	20.9	15.9	100.0

*Source:* NFPA Survey of Fire Departments for U.S. Fire Experience, 1987.

To cope with the dwindling and aging population of volunteer emergency responders, some States and many local units of government have discovered that providing benefits to volunteer first responders helps boost retention and recruitment. Volunteer benefits come in various forms. Communities provide length of service award programs (LOSAPs, pension-like programs for volunteer first responders), various tax and fee reductions, small cash payments for emergency calls responded to, reimbursement for expenses incurred, and a variety of others ranging from free gym memberships to award ceremonies. The types and levels of benefit vary widely by community.

Some States provide benefits, or at least authorize local units of government to provide benefits. Connecticut, New York and Alaska have authorized local units of government to provide property tax credits to their volunteer first responders. Delaware, Maryland and South Carolina offer their volunteers State income tax credits.

A Department of Labor ruling last year capped the value of benefits a first responder can receive each year and still be considered a volunteer. The ruling stated that a first responder loses their volunteer status if they receive more than 20 percent of what a career first responder, working the same number of hours in the same community would make in their place. This ruling hasn't affected most communities, where benefit levels don't come close to approaching the 20 percent threshold. However, the ruling has set an upper limit on volunteer benefits and

some departments have been forced to take steps to ensure that their members are in compliance.

The Federal Government does not provide volunteer first responders with any taxable benefits, but the Federal Government does tax the benefits provided by State and local units of government. Federal taxation of volunteer first responder benefits has several effects. The most obvious effect is to reduce the value of the benefit, by reducing the take-home income of the individual receiving the benefit, hence reducing the incentive that the benefit was intended to provide.

H.R. 943 excludes from gross income any "property tax rebate or other benefit" provided by State or local units of government to a member of a qualified emergency response organization. Excluding property tax rebates from gross income will be particularly beneficial in States like mine, where local units of government are allowed to offer up to \$1,000 in property tax rebates. This type of benefit is particularly useful in communities where rising property taxes have made living in the community unaffordable to the volunteers that serve it. New York and Alaska allow local governments to offer similar benefits to their volunteers.

The "other benefits" that are not enumerated in H.R. 943 would cover a wide range of benefits that are provided to volunteer emergency responders in every State. There are so many different types of incentives provided to volunteer emergency responders across the country that it would be nearly impossible to list them all. The broad language used in H.R. 943 is extremely important so that communities will have the flexibility to provide whatever type of benefit they find to be most effective as retention and recruitment tools.

Federal taxation also imposes a significant administrative burden on units of government in small, rural communities (which rely heavily on volunteer emergency services) that have limited staff to process paperwork. Many of these communities have no staff at all and rely on marginally compensated elected officials to perform all administrative functions. In communities such as these, issuing tax documents and maintaining tax records for every member of the volunteer fire department can be an overwhelming task.

In addition to being an administrative burden, Federal taxation of benefits provided to volunteer first responders can also be confusing. Many communities issue volunteers 1099 tax forms when they should be issuing W-2 forms and vice versa. LOSAP's place in the Federal tax structure is ambiguous at best, leading to a lack of portability and in some cases underfunding of programs. Small communities with severely limited resources often find the administrative and legal barriers associated with providing benefits to volunteer emergency responders prohibitive. By eliminating Federal taxation of these benefits, H.R. 943 would also make it much easier for small communities to provide them.

The Joint Committee on Taxation estimates that passage of H.R. 943 would cost the Federal Government \$1.58 billion over 10 years. This estimate does not take into account the value of volunteer first responders in keeping local tax rates down. Communities provide benefits to their volunteer first responders as a retention and recruitment tool. Ultimately, by providing these benefits and maintaining a viable volunteer emergency responder force, communities are able to maintain lower local tax rates. Each year, the services provided by volunteer emergency responders save State and local taxpayers more than \$37.2 billion. The tax savings derived from volunteer first responders compared to the average year cost incurred by passage of H.R. 943 results in a cost to savings ratio of approximately 42 cents per \$100.

**Table 3**  
**H.R. 943 Cost Estimate**  
[Millions of Dollars]

Fiscal Years											
2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2007-12	2007-17
-31	-126	-135	-146	-162	-172	-184	-196	-208	-221	-599	-1580

Source: Joint Committee on Taxation Letter to Congressman John Larson dated July 16, 2007.

The NVFC supports passage of H.R. 943, either as a stand-alone bill or as part of a package of multiple tax proposals in one bill. I would like to thank the Subcommittees for the opportunity to speak here today and would be happy to take any questions at this time.

Chairman NEAL. Thank you, Mr. McAuliffe.  
Ms. Perdeu.

**STATEMENT OF JESSICA PERDEW, DEPUTY DIRECTOR OF  
GOVERNMENT RELATIONS, NATIONAL MILITARY FAMILY AS-  
SOCIATION, ALEXANDRIA, VIRGINIA**

Ms. PERDEW. Chairman Neal, Chairman McDermott, and distinguished Members of the Subcommittee, thank you for the opportunity to share the tax issues and concerns facing military families today. NMFA appreciates the concern for and commitment to families evident in the Heroes Earnings Assistance and Relief Tax Act of 2007.

As you know, military compensation is very complex. Many servicemembers receive special and incentive pays at different times throughout their careers. These temporary increases in compensation may actually result in a loss of programs or benefits for the families who receive them.

In other circumstances, a permanent change of station move may result in the loss of benefits or programs upon arrival at the new duty station. Perhaps the most glaring example of this problem is with regard to Supplemental Security Income or SSI.

Military families that receive SSI to help care for a special needs or disabled child often find that a change in housing status or a deployment can disqualify the family for SSI. While the loss of these payments is certainly an issue, SSI is also the gateway to other programs that assist the family in caring for that disabled family member.

I recently spoke with a Navy spouse who had completed a government order move. They had five children. One of the children was diagnosed with autism. At their former duty station, the family received SSI for the autistic child. In addition, because the family qualified for SSI, they also had access to additional support programs in the local community.

They were unable to secure government quarters at the new duty station, and as a result were collecting Basic Allowance for Housing on the local economy. This increase in income resulted in their ineligibility for SSI, and as a result, ineligibility for Medicaid and other support programs. In addition, because they were now receiving BAH, the other children in the family were no longer qualified for reduced-price lunches.

Military families should not be penalized for being deployed to a combat zone or making an ordered permanent change of station move. A standardized formula for the treatment of military compensation is necessary to ensure that all families are eligible for the same benefits regardless of their current geographic location. NMFA believes that BAH should be excluded from income when calculating eligibility for safety net programs such as SSI and reduced or free school lunches.

Congress has heard and responded to the issue of military families who lost eligibility for the Earned Income Tax Credit as a result of nontaxable pay in a combat zone. The concern is that while there is no immediate end in sight to the current deployments, the end of the provision that allows servicemembers to count nontaxable pay as earned income for EITC purposes is clearly in sight.

It is imperative that this provision be protected for servicemembers repeatedly sent in harm's way. In addition, hardship duty pay, imminent danger pay, and other deployment-related pays should be considered earned income for purposes of safety net programs. A family coping with the stresses of deployment should also not be faced with the loss of benefits.

A few years ago, the Military Times newspaper ran a story about a Marine staff sergeant, Staff Sergeant Brown, who had actually requested to forfeit special pays and allowances that would be paid for his upcoming deployment to Kuwait. His request was denied. By law, he was told, he had to be paid approximately \$400 a month in special pays for this deployment.

Unfortunately, the additional money meant that the Browns would lose eligibility for SSI for their disabled child. The SSI eligibility was the gateway for a daycare program provided by Medi-Cal. These services would have cost the Browns nearly \$50,000 a year. In addition, Medi-Cal was covering supplies that TRICARE did not cover. In total, the Browns estimated that they would need about \$8,000 in extra income every month to make up for the \$400 Staff Sergeant Brown would be receiving as a result of the deployment.

The disabled child of a servicemember does not stop being disabled just because the servicemember deploys. As a result, the services these families need should not stop when the servicemember deploys. The treatment of special pays and allowances as unearned income is financially devastating to special needs families.

I would also like to take the opportunity to share with you some additional provisions that NMFA believes would be beneficial to military families.

Currently, military members are not eligible to participate in flexible spending accounts, nor are they permitted to use pretax dollars to pay health insurance premiums for TRICARE supplements or the DOD-sponsored TRICARE dental plan. NMFA advocates extending these benefits to military members.

Finally, NMFA believes it is time for a coordinated national approach to unemployment benefits for military spouses who make a permanent station move with their military sponsor. While some States have extended unemployment benefits to military spouses, others have categorically denied us from the benefit. A Federal solution to this problem would ensure equitable treatment of all military spouses.

Military families are very proud of their service. On a daily basis, they are shouldering the burdens of family stresses, compounded by a high operation tempo and limited funding. NMFA believes the opportunity to bring these issues to the Subcommittee on behalf of military families is an important one. Thank you for your continued concern and support for servicemembers and their families.

[The prepared statement of Ms. Perdedew follows:]

**Prepared Statement of Jessica Perdedew, Deputy Director of Government Relations, National Military Family Association, Alexandria, Virginia**

The National Military Family Association (NMFA) is the only national organization whose sole focus is the military family. The Association's goal is to influence the development and implementation of policies that will improve the lives of those

family members. Its mission is to serve the families of the seven uniformed services through education, information, and advocacy.

Founded in 1969 as the National Military Wives Association, NMFA is a nonprofit 501(c)(3) primarily volunteer organization. NMFA represents the interests of family members and survivors of active duty, reserve component, and retired personnel of the seven uniformed services: Army, Navy, Air Force, Marine Corps, Coast Guard, Public Health Service and the National Oceanic and Atmospheric Administration.

NMFA Representatives in military communities worldwide provide a direct link between military families and NMFA staff in the Nation's Capital. Representatives are the "eyes and ears" of NMFA, bringing shared local concerns to national attention.

NMFA does not have or receive Federal grants or contracts.

NMFA's website is: <http://www.nmfa.org>.

Jessica Perdeu joined the National Military Family Association Government Relations staff in 2005 as Legislative Administrative Assistant. In January 2007 she was selected to serve as Deputy Director in the Government Relations Department. In this position, she follows issues such as pay and compensation, housing, taxes, family member employment, financial literacy, commissary, and exchange as well as other issues relevant to the quality of life of the families of the seven uniformed services. She is a regular contributor to several publications including *Military Money* and *Military Spouse* magazines. Mrs. Perdeu serves on the Military Construction/MWR/Exchanges Committee, the Taxes/Social Security Committee and the Committee on Military Personnel, Compensation and Commissaries of The Military Coalition. In addition she represents military families on the Military Saves National Partners Committee.

A former Marine and a Marine spouse of 14 years, Mrs. Perdeu has served in various volunteer leadership positions in civilian and military community organizations including Key Volunteers, Navy and Marine Corps Relief Society, Volunteer Income Tax Assistance (VITA), and Marine Spouse Clubs. She is a graduate of the University of Michigan in Ann Arbor with a Bachelor of Science in Physics and is currently pursuing a second Bachelors degree in Accounting through the University of Maryland.

In addition to her work at NMFA, Mrs. Perdeu is a past President of the Marine Officers' Spouses' Club of Washington D.C. and is currently serving as the Coordinator of the Joint Armed Forces Officers Wives Luncheon Committee. She is also a volunteer in the youth office at St. Mark Church in Vienna, Virginia. Mrs. Perdeu and her husband, Lieutenant Colonel Jason Perdeu, reside in Vienna, Virginia with their four children.

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Representative Neal, Representative McDermott, and distinguished Members of the Subcommittees, the National Military Family Association (NMFA) would like to thank you for the opportunity to present testimony today on some of the issues confronting military families with regard to taxation. The package of provisions being discussed in the "Heroes Earnings Assistance and Relief Tax Act of 2007" contains some very exciting benefits for military members and their families. I would like to discuss a few specific provisions today.

#### **Special Tax Provisions for Active Duty Service**

Over the past 6 years of the Global War on Terror many laudable tax provisions targeting military members have been enacted. Unfortunately, many of these provisions were enacted with sunset dates and are due to expire at a time when servicemembers want and need them to continue. One such provision is the ability to treat nontaxable income earned in a combat zone as income for the purpose of Earned Income Tax Credit (EITC) qualification.

A few years ago many of our junior enlisted and officer members were suffering a net loss in tax benefits while deployed to a combat zone despite the allowed tax exclusions on their income. This seeming paradox resulted from an overall decrease in earned income resulting in the decrease in or disqualification for the Earned Income Tax Credit. Congress recognized the importance of this credit to our military families and took action to ensure they did not lose eligibility due to military orders deploying them to a combat zone. Making this provision permanent will ensure that our lowest income servicemembers and their families are eligible for and can maximize the benefit of these important credits while serving in a combat zone.

Other families are finding that the receipt of combat or hazardous duty compensation reduces or makes them ineligible for Supplemental Security Income (SSI) payments. Currently military families who rely upon SSI to meet living expenses associated with a disability are finding that a deployment can significantly impact their



financial stability in a multitude of ways. The receipt of Hardship Duty Location Pay (HDL-P), Imminent Danger Pay (IDP), or other deployment-related pays can disqualify otherwise qualified families for SSI. Not only does the affected family lose the SSI payment, they also become ineligible for other programs for which SSI is the gateway to qualification such as Medicaid. Classifying these pays as earned income for purpose of SSI qualification would ensure that military families in these circumstances aren't arbitrarily penalized for the deployment of the servicemember.

NMFA has heard from many families about the difficulty of balancing financial obligations when the servicemember is deployed. Families commit to financial obligations based upon their regular income, which may include SSI. When the servicemember is deployed, the family is still obligated to pay the mortgage, utilities, car payment, and college tuition even if their income decreases. Disabled family members do not suddenly lose their disability when a servicemember deploys. The child who requires special daycare still requires special daycare. The blind child does not suddenly regain his or her sight. These families are not only coping with a disabled child, they are also now dealing with the additional impacts of a deployment and suddenly becoming a single parent family until the servicemember returns. It is imperative that disability payments continue for families coping with deployment. Legislation is needed to ensure continuity of these benefits to all families.

The call to active duty service and deployment can have catastrophic impact on the monthly budget of a family, especially Guard and Reserve families. Many families have used their "emergency fund" to cope with the additional financial demands of previous deployments. As a result many families are finding subsequent deployments more financially taxing. The provision that permits active duty members to make penalty free withdrawals from retirement plans may be the only resource remaining for some families. While withdrawing from a retirement account will obviously impact future retirement plans, such withdrawals may be the only means of maintaining a family's financial solvency.

NMFA believes there is also room for additional legislative provisions for servicemembers and families coping with deployment. NMFA suggests Congress pass legislation to:

- Exclude all employment taxes, rather than just FICA for servicemembers in a qualifying combat zone.
- Increase the standard deduction for servicemembers who received tax free pay as a result of service in a combat zone during the tax year.
- Extend tax exemptions offered to servicemembers in combat zones to military spouses of those servicemembers.
- Provide employers with tax incentives to continue benefit programs for families of Guard and Reserve servicemembers called to active duty.

All servicemembers, regardless of deployment status, would benefit from the ability to pay health insurance premiums for TRICARE supplements or the DoD sponsored TRICARE dental plan with pre-tax dollars. Also, servicemembers are currently unable to participate in flexible spending accounts that would permit them to pay health care and child care expenses with pre-tax dollars. Both of these benefits are routinely offered to civilian employees and Federal civilian employees. Military spouses are called upon to regularly relocate as servicemembers are transferred from duty station to duty station. Yet, in many States military spouses are not eligible for unemployment compensation despite having worked at the previous duty station. Standardizing the rules for unemployment compensation for military spouses would ensure that they are not arbitrarily penalized for moving with their military sponsor. NMFA believes it is time to extend those benefits to active duty personnel and their families.

**NMFA appreciates the efforts of Congress to provide beneficial tax treatment due to the special circumstances surrounding military service in a time of conflict. We believe that it is now time to make these provisions permanent to ensure there is no loss of benefit as servicemembers continue to wage the Global War on Terror.**

#### **Military Allowances and Safety Net Programs**

In congressional testimony since 2003, NMFA has raised a longstanding frustration for military families: The confusion involved in how and when military allowances are counted to determine eligibility for military and civilian programs. NMFA again reinforces the need for Members of Congress, as well as State officials, to assist in bringing a sense of order to how military allowances are counted for Federal and State programs. We ask you to help ensure equitable access to these safety net services and protect families against disruptions in benefit eligibility caused by the receipt of deployment pays. No family should have to face the prospect of losing val-

uable benefits for a disabled child because a servicemember has received deployment orders or because they have relocated to a new duty station.

Families living off the installation are often there only because of the non-availability of on-base housing, yet endure higher expenses than families living on an installation. Ideally, therefore, NMFA believes tax free allowances such as BAH should not be counted under any safety net program, which is how they are now treated in determining eligibility for the Earned Income Tax Credit (EITC). NMFA understands this could increase the number of military families eligible for some of these programs, but believes this increase is justified given the need for equitable treatment of all servicemembers, as well as the loss of spouse income due to military relocations and high operations tempo.

***Inconsistent treatment of military allowances in determining eligibility for safety net programs creates confusion and can exact a financial penalty on military families. A start in correcting this inequity would be to adopt a common standard in how BAH should be counted in eligibility formulas and to ensure that the receipt of deployment-related allowances do not cause military family members to become ineligible for support services for which they would otherwise be eligible.***

#### **Tax Treatment for Wounded and Surviving Families**

NMFA recognizes and appreciates the legislation that has been passed in support of survivors since the beginning of the Global War on Terror. One issue that has been previously overlooked in legislation is the ability to invest death gratuities in tax favored accounts. For survivors, the ability to contribute up to the entire amount of the death gratuity to a tax favored account allows them the opportunity to invest this payment until it is needed to cover higher education costs without being penalized by a significant tax expense when withdrawn. This measure is one more way that we can ensure that the families of those patriots who have made the ultimate sacrifice can achieve their dreams and goals without the threat of taxes eroding the value of their educational funding investments.

Finally, those veterans who have patiently waited years for a Department of Veterans Affairs (VA) Disability Determination should be afforded the opportunity to amend a tax return and obtain a refund of taxes that were overpaid during the time that the VA was adjudicating the case. The delay in determinations is through no fault of the individual veteran and they should not be asked to forego refunds simply because the statute of limitations on amending a return has passed.

NMFA appreciates your focus on and commitment to military members and their families. Financial readiness has a direct impact on military readiness; the tax provisions discussed here have the potential to improve financial readiness of military members.

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Chairman NEAL. Thank you, Ms. Perdeu.  
Ms. LaRock.

#### **STATEMENT OF MICHELLE D. LAROCK, DEPUTY DIRECTOR OF PROGRAM DEVELOPMENT, DIVISION OF VETERANS' AFFAIRS, STATE OF NEW YORK, ALBANY, NEW YORK**

Ms. LAROCK. Thank you. Chairman Neal, Chairman McDermott, Ranking Members English and Weller, and Members of the Ways and Means Subcommittees, my name is Michelle LaRock and I am Deputy Director for Program Development of the New York State Division of Veterans' Affairs. I am pleased to be here today to discuss Section 202 of the draft proposal before you, which would ensure that recipients of State annuities for blinded veterans are not penalized by the loss of their Supplemental Security Income benefits.

Section 202 of this proposal is modeled on legislation, H.R. 649, introduced by New York Congressman Tom Reynolds, who has advocated this important change since the year 2000, and I appreciate his facilitating my appearance at this morning's hearing.

New York is one of four States that currently provide a modest annuity to blinded veterans. The other States that offer similar annuities are Massachusetts, Pennsylvania, and New Jersey, States that are also well represented by Members of this Committee. Let me begin briefly by describing New York's annuity program and then discuss why current Federal SSI rules present serious challenges both to annuitants and to the Division of Veterans' Affairs in our administration of the annuity program.

Under New York's program, the State makes an annuity payment to blinded veterans or their un-remarried surviving spouses. The annuity has been in existence since shortly after World War I, and it is currently at a rate of \$1,103.88 per year. There are approximately 3,100 veterans and 1,400 spouses currently receiving these benefits.

Unfortunately, under current Federal law, SSI benefits for which blinded veterans may otherwise be eligible are reduced simply by virtue of their receiving these modest State annuities. This quirk in Federal law poses significant challenges both to annuitants and to administrators of these State programs.

With respect to the annuitants themselves, it seems unfair that these modest State annuities would reduce Federal SSI payments to blind veterans who are struggling economically, especially given that our annuity program predates SSI and was never intended to replace Federal benefits.

Instead of making the lives of eligible veterans a little easier, these annuities have often become significant hardships for them when offsetting their Federal benefits. This is an obvious inequity, and it is a welcome development to see that Congressman Reynolds' proposal to correct this problem has been included in the draft bill under consideration by the Committee.

These Federal rules governing SSI payments have also presented difficulties for the Division of Veterans' Affairs in the administration of our blind annuity program. For an unknown number of years, our annuities have not been paid as single annual payments, but rather as 12 monthly payments. The rationale behind this payment schedule is the necessity to minimize the impact a lump sum payment would have on annuitants' Federal benefits, such as SSI, that are calculated on a monthly basis.

Unfortunately, this has resulted in the annuity being treated as a payroll process, except that no deductions are made and it is run monthly. This generates about 54,000 checks over the course of 1 year, which is the payroll equivalent of a 2,000-person agency, all managed part-time by a Secretary II in the Division of Veterans' Affairs and a payroll clerk in the Office of General Services.

If State annuities to blind veterans were disregarded in calculating Federal SSI benefits, the Division of Veterans' Affairs could explore ways to simplify and improve our administration of the annuity program and make it more effective for our State's blinded veterans.

In sum, the interplay between current Federal law and our State program has made something as simple as paying \$1,103.88 per year to blind New York veterans or his or her surviving spouse unbelievably complicated and difficult, not only for the recipients but also for the State.

For the above-mentioned reasons, the New York State Division of Veterans' Affairs enthusiastically supports the legislative change made in Section 202 of this proposal, and we thank Congressman Reynolds and other Members of this Committee for their efforts to address this important issue.

I appreciate the opportunity to present the views of the Division of Veterans' Affairs, and am prepared to answer any questions Members of the Subcommittees may have. Thank you.

[The prepared statement of Ms. LaRock follows:]

**Prepared Statement of Michelle D. LaRock,  
Deputy Director of Program Development, Division of Veterans' Affairs,  
State of New York, Albany, New York**

Chairman Neal, Chairman McDermott, Ranking Members English and Weller, and Members of the Ways and Means Committee, my name is Michelle LaRock, and I am Deputy Director of the New York State Division of Veterans' Affairs. I am pleased to be here today to discuss Section 202 of the draft proposal before you, which would ensure that recipients of State annuities for blinded veterans are not penalized by the loss of their Federal Supplemental Security Income (SSI) benefits. Section 202 of this proposal is modeled on legislation, H.R. 649, introduced by New York Congressman Tom Reynolds, who has advocated this important change since the year 2000, and I appreciate his facilitating my appearance at this morning's hearing.

New York is one of four States that currently provide a modest annuity to blinded veterans. The other States that offer similar annuities are Massachusetts, Pennsylvania, and New Jersey, States that are also well represented by Members of this Committee. Let me begin by briefly describing New York's annuity program and its eligibility requirements and then discuss why current Federal SSI rules present serious challenges both to annuitants and to the Division of Veterans' Affairs in our administration of the annuity program.

***Description of New York State's Blinded Veterans Annuity Program***

Under New York's program, the State makes an annuity payment to blinded veterans or to their un-remarried surviving spouses. The annuity has been in existence since shortly after World War I, initially at an annualized rate of \$500 and only for blinded veterans themselves. In 1999, the amount was increased to \$1,000 per year, and in 2000 un-remarried surviving spouses were added as eligible annuitants. In 2004, a provision to index the amount of the annuity by the annual Federal inflation rate was added. The current annuity is \$1,103.88 per year.

Prior to 1999, there were approximately 1,100 veterans receiving the annuity. Following the increase in the amount of the annuity and the addition of many more surviving spouses, that number has risen to include approximately 3,100 veterans and 1,400 spouses. Most of these recipients are elderly—only 18 of the 4,500 recipients are under the age of 50.

***Eligibility Requirements***

In New York, eligible veterans are those who served on active duty in the armed forces of the United States during specified wartime periods and who were discharged or released under conditions other than dishonorable. Annuitants must meet the New York State standards of legal blindness and must continue to be residents of, and continuously domiciled in, New York State. In general, the veteran must have had 90 days of active duty service for nontraining purposes. Less than 90 days is acceptable, however, if the veteran was discharged for a service-connected disability.

***Current Federal Law Reduces Annuitants' SSI Benefits***

Unfortunately, under current Federal law, SSI benefits for which blinded veterans may otherwise be eligible are reduced simply by virtue of their receiving these modest State annuities. This quirk in Federal law poses significant challenges both to annuitants and to administrators of these State programs.

With respect to the annuitants themselves, it seems unfair that these modest State annuities would reduce Federal SSI payments to blind veterans who are struggling economically, especially given that our annuity program predates SSI and was never intended to replace Federal benefits. Instead of making the lives of eligible veterans a little easier, these annuities have often become significant hardships for them when offsetting their Federal benefits. This is an obvious inequity,

and it is a welcome development to see that Congressman Reynolds' proposal to correct this problem has been included in the draft bill under consideration by the Committee.

These Federal rules governing SSI payments have also presented difficulties for the Division of Veterans' Affairs in the administration of our blind annuity program. For an unknown number of years, our annuities have not been paid as single annual payments, but rather as 12 monthly payments. The rationale behind this payment schedule is the necessity to minimize the impact a lump sum payment would have on annuitants' Federal benefits, such as SSI, that are calculated on a monthly basis. Unfortunately, this has resulted in the annuity being treated as a payroll process, except that no deductions are made and it is run monthly. This generates about 54,000 checks over the course of 1 year, which is the payroll equivalent of a 2,000-person agency—all managed part-time by a Secretary II in the Division of Veterans' Affairs and a payroll clerk in the Office of General Services. If State annuities to blind veterans were disregarded in calculating Federal SSI benefits, the Division of Veterans' Affairs could explore ways to simplify and improve our administration of the annuity program to make it more effective for our State's blinded veterans.

In sum, the interplay between current Federal law and our State program has made something as simple as paying \$1,103.88 per year to a blind New York veteran or his or her surviving spouse unbelievably complicated and difficult, not only for the recipients but also for the State.

#### **Conclusion**

For the above-mentioned reasons, the New York State Division of Veterans' Affairs enthusiastically supports the legislative change made in Section 202 of this proposal, and we thank Congressman Reynolds and other Members of this Committee for their efforts to address this important issue. I appreciate the opportunity to present the views of the Division of Veterans' Affairs and am prepared to answer any questions Members of the Subcommittees may have. Thank you.

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Chairman NEAL. Thank you, Ms. LaRock.

Mr. Downing, I appreciate your comments on the need for affordable housing for veterans, and perhaps the successful low-income housing tax credit program could be utilized for this need as well. You stated that your program creates savings accounts for veterans so that someday they can own their own home.

Under the current draft bill we are considering, one of the provisions would make permanent a temporary provision that waives the first-time homebuyer requirement for veterans under a Qualified Mortgage Bond program, providing an opportunity for veterans to access lower-cost financing.

Does Massachusetts do any outreach work to veterans under the Qualified Mortgage Bond program?

Mr. DOWNING. Not that I'm aware of, sir.

Chairman NEAL. Do you want to expound on that?

Mr. DOWNING. The issue has been that in the Massachusetts Department of Veterans Services, they have never had anything whose full-time position was just housing around the issue of housing for veterans. They are currently funding and developing a job position to do that, and I think as a result of that, the programs that might have benefited veterans have never come into existence.

Chairman NEAL. And Ms. LaRock, do you expect an uptick in recipients of veterans services in your special annuity program with the increase in the number of veterans over the last few years?

Ms. LAROCK. Once the State started allowing spouses, that increased. And once the State indexed the annuity to keep with the

Federal cost of living, that also increased the amount of annuitants in the program.

I am not sure if they knew that the blind annuity would not be countable income, that that would make them come out in droves. I think they still come out to get their annuity. But it just makes it difficult for them to have their Federal benefits offset if they do receive SSI.

Chairman NEAL. Thank you. I would like now to recognize Mr. McDermott.

Mr. MCDERMOTT. Thank you, Mr. Chairman.

Listening to you talk about all the health care problems reminds me, we are going to have a hearing in my Subcommittee on the gaps in SSI and how they are created because it is pretty clear to me that we really need a universal health care system so that people don't drop between TRICARE and Medicaid and all the places where, when there are shifts in people's lives, what happens to their health care.

I am afraid to ask, Ms. Johnson: What happened to your health care coverage when your husband was killed?

Ms. JOHNSON. Well, fortunately I was working at the time, so I had health care also for our family. And, of course, while he was on active duty, we had the military TRICARE. Because he was killed, the military will take care of the family with TRICARE.

Mr. MCDERMOTT. So TRICARE goes from now until your daughter is how old?

Ms. JOHNSON. There is a period that the family does not have to pay anything, and then the family does have to pay a portion. I have not come to that point yet to know how much that is.

Mr. MCDERMOTT. Tell me about what happened in the State legislature when you went down there to try and get a fix from the State legislature around the pension system.

Ms. JOHNSON. I have to let you know that everyone that I talked to was very supportive on a personal level. They could not do enough for me because they understood the situation.

Mr. MCDERMOTT. Did they change the law?

Ms. JOHNSON. It was the wording and how things were done. They would tell me their hands are tied on what happened with that. Again, he was being treated as though he quit, as though he wasn't employed any longer, where I believe that if he had been killed here in the States at the time while he was employed, there would have been just a reduction in those benefits; where in this case they were removing all of the matching, where if he had been killed here, there still would have been the matching funds. It just would have been a penalty for early retirement.

Mr. MCDERMOTT. Does anyone here on the panel know how many States treat a service person as terminating their employment when they go on active duty? Is that a universal thing across the country? Does anybody know that?

Ms. JOHNSON. I don't think it has happened enough, so I don't think people—they haven't looked at it.

Ms. PERDEW. Mr. Chairman, it is not just State governments. Also, private employers who have pension plans, when you are a Guardsman or a Reservist and you activate, if you are killed in the line of duty during that activation, you are considered a terminated

employee because you never came back to the employer as an employee after your tour of duty.

Mr. MCDERMOTT. So that you do not then participate in the company—in the private plans, either?

Ms. PERDEW. Correct. They would have the same experience, whereas they would be given back what they had paid into the program, but not treated as a pensionholder.

Mr. MCDERMOTT. And I hope that, Ms. Johnson, you will send it to us. But if anybody else has access to what the difference is for a—your husband was what, 40—

Ms. JOHNSON. Forty-four-years-old.

Mr. MCDERMOTT. And he had been in the law enforcement system—

Ms. JOHNSON. Fifteen years. Fifteen years.

Mr. MCDERMOTT [continuing]. For 15 years. So he had some kind of actuarial—you could have received an actuarial reduced pension.

Ms. JOHNSON. Right. And even at State level, it is not where it really needs to be. For instance, I was not given the option to keep the money in there so to reduce that penalty. Do you understand what I am saying? That if I could have kept it in there until, you know, his age that he would have been at retirement normally, if you did that, there would be a reduction of that penalty. I was not given that choice.

Mr. MCDERMOTT. So you were just given—

Ms. JOHNSON. So I had to take a full penalty, as though he retired at age 44.

Mr. MCDERMOTT. And then were you taxed on that money as well?

Ms. JOHNSON. I, of course, knowing it was a pension, I have rolled it over into a pension account. I guess that would be an IRA. Of course, I will be.

Mr. MCDERMOTT. Ultimately.

Ms. JOHNSON. But, I mean, that is what—I don't believe that the families necessarily—I mean, some of them may need it right away. But it was meant to be a pension, and I had no problem keeping it that way. And I would have loved to have been able to keep it in there to reduce those penalties, but I was not given that opportunity.

Mr. MCDERMOTT. Thank you very much. Thank you for coming and testifying here today. You did a good job.

Ms. JOHNSON. Thank you.

Chairman NEAL. Mr. Reynolds.

Mr. REYNOLDS. I thank the Chairman. And I thank this panel. I think it has been both helpful on the legislation that our two Chairs and Ranking Members have hosted this hearing on, but also, as Chairman McDermott and I were walking to the Capitol, it opens up other things where your testimony helps us think about where we can maybe do other areas of assistance as unintended consequences have occurred as we are at war and we have had our Reserve and Guardsmen on active duty service.

And I also saw some of that as I was on an Air Force base this weekend in my district, and talking to Reservists about some peculiar problems they are now experiencing that we just need to work

through. So I again appreciate the testimony here, and appreciate the opportunity with this hearing both for legislation before us, but where it is leading us to look at some other things.

Chairman NEAL. Thank you, Mr. Reynolds.

Mr. Larson is recognized.

Mr. LARSON. Thank you, Mr. Chairman. And let me echo the sentiments of the Members on the Subcommittee, first and foremost to you and Mr. McDermott and the Ranking Members for holding this hearing, and Mr. Rangel for putting this legislation forward. Certainly the testimony here today has been compelling, if not poignant and emotional.

And as was said by Mr. Reynolds, I think more often than not, when we get to listen to our constituents, we get to learn an awful lot more about how we can more effectively apply the laws. That was the case in Connecticut, which passed a law in 1999 that provided relief to volunteers and local municipalities that allowed them to provide a rebate to volunteers. And if we learned anything after the events of September 11th, it was how important and how valuable those volunteers are, those frontline defenders, as I said.

I have a question for Mr. McAuliffe because I do think it is important. Is the state of volunteerism, and specifically in the case of firefighters, and so important, I believe, in your statement you said something like it saves the taxpayer \$37 billion—what has caused this stress? Is there some—what do you attribute to the lack of volunteerism, et cetera, not only in Connecticut, but perhaps across the Nation in your association?

Mr. MCAULIFFE. I think there is a broad series of events that have caused the diminishment of volunteers. However, I can focus on a couple of points. And one is that the demands of a volunteer have substantially changed since I went into the department years ago.

We did on-the-job training. Now there are more safety features, more specialized training that our people have to go through to maintain that professional level of balance to do their job. So the time commitment becomes much longer than what it was years ago.

The other thing I see is a diminishment in the volunteers out there as the demographics of communities. And if I might point out that Wethersfield, the town I come from, was once a suburban community. As time went along, it became an urban community. And those firefighters or volunteer firefighters that we had during the daytime who were the farmers, those farms are gone. So we have to find people who we can solicit or encourage to join the volunteer fire service to pick up that slack.

However, I will say that in looking at the \$1,000 tax deduction that the State has allowed, I see that there is a slowing down of the number of people exiting from the fire service, and I think that is definitely a good sign. Hopefully, it will turn around even further and come back to where, when I went in the department, you had to be put in queue to get into the department. Now, if you can capture a warm body and get them to join, you certainly do that.

Mr. LARSON. Thank you, Mr. McAuliffe.

Chairman NEAL. Are there any other questions of our panelists? [No response.]



Chairman NEAL. Well, I want to thank you personally as well as professionally. I think that you are reflective of hometown America and the real problems that our veterans and others have every single day. And I think not only is the testimony you have offered instructive, but I think it is testimony that you can see Republicans and Democrats both are embracing.

And I am hopeful that the full Committee will move on with some of the suggestions that you have offered, and that we will get a product that will pass the House of Representatives. And I am pretty confident that in some form, that will happen.

So let me thank you for your testimony. The record will remain open for a short period of time to accommodate any written followup that you might like to offer.

Mr. MCDERMOTT. Mr. Chairman?

Chairman NEAL. Mr. McDermott.

Mr. MCDERMOTT. Mr. Chairman, I would like to have unanimous consent to put into the record a letter from the AmeriCorps program in Washington State that has part of the documentation of why we need to deal with AmeriCorps.

Chairman NEAL. Without objection, that testimony will be accepted.

If there is no further comment, the Chair will declare that this hearing is adjourned.

[Whereupon, at 12:58 p.m., the Subcommittees were adjourned.]

[Submissions for the Record follow:]

STATE OF CALIFORNIA  
DEPARTMENT OF VETERANS AFFAIRS  
FARM AND HOME PURCHASES DIVISION  
Sacramento, California 94295-0001  
October 29, 2007

The Honorable Charles B. Rangel  
Chairman  
House Ways and Means Committee  
1002 Longworth HOB  
Washington, DC 20515

Dear Chairman Rangel:

Thank you for helping California's veterans fulfill their dreams of homeownership by including the mortgage bond provisions of H.R. 551 in the *Heroes Earnings Assistance and Relief Tax Act of 2007*. The California Department of Veterans Affairs strongly supports your bill, which will allow California's recent war veterans to participate in our CalVet Home Loan program.

The CalVet Home Loan program has helped more than 420,000 veterans experience the American dream of homeownership. Since 1922, California has offered low-interest home loans to veterans in appreciation of their service to the Nation primarily through the sale of voter approved, tax-exempt Qualified Veterans Mortgage Bonds and to a smaller extent through Qualified Mortgage Bonds. The States of Alaska, Oregon, Texas and Wisconsin operate similar Qualified Veterans Mortgage Bond programs, and any State can use Qualified Mortgage Bond funds for housing programs.

Over 2.2 million veterans and 200,000 servicemen and women reside in California. Enactment of the proposed bill will help meet the demand for low-cost loans in California's high-cost market, and ensure that those Americans who served in the Persian Gulf War, Somalia, Grenada, Panama, Kosovo, Bosnia, Afghanistan and Iraq can enjoy the same level of benefits that have been granted to their fathers and grandfathers who served in World War II, Korea and Vietnam.

Your leadership and support of the *Heroes Earnings Assistance and Relief Tax Act of 2007* is very much appreciated by the California Department of Veterans Affairs, the many veteran and industry organizations that support H.R. 551, and the veterans of California.

Tom Johnson, FACHE  
Secretary, California Department of Veterans Affairs

Corporation for National and Community  
October 18, 2007

The Honorable Jim McDermott  
Chairman  
Ways and Means Subcommittee on Income Security and Family Support  
United States House of Representatives  
Washington, DC 20515

Dear Chairman McDermott:

I am writing to thank you for your leadership in addressing the disparate treatment of AmeriCorps participant benefits for purposes of disability benefits provided by the Social Security Administration.

The AmeriCorps program has three components: (1) AmeriCorps VISTA; (2) AmeriCorps National Civilian Community Corps; and (3) AmeriCorps State/National. All AmeriCorps participants receive a modest living allowance during service and a post-service education award upon completion. Under current law, payments to AmeriCorps VISTA participants may not affect their eligibility for any government program, including Supplemental Security Income (SSI) and Social Security Disability Insurance (SSDI). At the same time, payments to AmeriCorps NCCC and State/National participants may negatively affect their eligibility for, or benefit levels under, SSI or SSDI.

The National and Community Service Act of 1990 calls upon the Corporation to promote the inclusion of individuals with disabilities in national and community service programs, with specific funding for outreach and placement. Individuals with disabilities volunteer for the same reasons that anyone else does: To give back to their communities; to improve their surroundings; to improve the quality of their lives; and to be active and engaged citizens. Some national service participants who have disabilities volunteer with organizations that serve other individuals with disabilities, while others focus their efforts on helping to meet a wide range of critical community needs.

Through the Corporation's National Service Inclusion Project, we work with non-profit and community-based organizations to develop inclusive service environments that are accessible and welcoming and that make meaningful service experiences possible.

Regarding the disparate treatment of AmeriCorps benefits, we have consistently heard from many of our State Commissions and grantees, as well as the larger disability community, about the difficulties they encounter recruiting individuals with disabilities to our programs because of the possible threat to their SSI or SSDI benefits. Some participants have been caught up in this problem after they have already enrolled.

Thank you very much for your attention to this important issue, and for your many years of support of national service. Please do not hesitate to call me if I may provide you with additional information or contact Kathleen Ott, Director, Government Relations.

The Office of Management and Budget advises that from the standpoint of the Administration's program, there is no objection to the transmittal of this letter.

Sincerely yours,

David Eisner  
Chief Executive Officer

**Statement of Jerry Patterson,  
Texas Land Commissioner and Chairman, Texas Veterans Land Board**

Chairman Neal and Chairman McDermott:

I want to thank you both for allowing me to submit this written testimony about the Qualified Veteran Mortgage Bond provision contained in the "HEROES Earnings Assistance and Relief Act of 2007." I also want to thank Congressman Sam Johnson for requesting that this testimony be included in the record.

Texas has always rewarded those who have fought on her behalf. Over the years, Texas gave land because that was all she had. The heirs of David Crockett, who was once a member of this body, received 1,280 acres of land for his honorable service at the Alamo. In 1946, the Texas Legislature created the Texas Veterans Land Board (VLB) to make loans to returning veterans so they could buy a piece of Texas to farm or ranch. Since then, the VLB has served more than 200,000 veterans.

From the first land loan in 1947, the VLB has grown to provide low interest loans for land housing and home improvement. All of the programs are conducted at no cost to the taxpayer. The VLB is one of two State agencies that completely pay for themselves with the proceeds from the programs. In addition to the loan programs, the VLB also operates seven long-term, skilled nursing facilities for veterans and their spouses, as well as two State veterans cemeteries and is currently working on the location of an eighth nursing home and third cemetery.

The inclusion of the Qualified Veteran Mortgage Bond section into the HEROES bill will allow California and Texas to have the same benefit to serve their veterans as Alaska, Oregon and Wisconsin now do. QVMB loans symbolize an important commitment to veterans. Over the past several years, we have received a number of resolutions of support from veterans groups and those in the housing industry endorsing passage of this and similar measures.

All veterans, regardless of when they served, deserve to be treated equally. Passage of this provision will ensure that all benefits provided by the Texas Veterans Land Board are administered without bias to all eligible veterans. These veterans, who have earned this entitlement through their honorable service, will enhance local tax bases, stimulate economic growth and strengthen our communities as responsible homeowners and taxpayers.

Veterans are a good credit risk. The default rate—of borrowers who cannot afford to keep their homes—averages less than one-half of 1 percent. That is outstanding compared to the rest of the market, which sees default rates in the 7 percent range and higher. Veterans pay their bills.

It is also noteworthy that the Texas Veterans Land Board offers additional benefits and discounts on its already low base rate. Veteran borrowers with a disability rating of 50 percent or more from the U.S. Department of Veterans Affairs (VA) will receive an additional 0.35 percent rate reduction. We also offer our own version of the Servicemember Civil Relief Act of 2003, once known as the Soldiers and Sailors Relief Act. If borrowers in the Reserve forces of any branch of service or the National Guard are called to active duty, we suspend the interest due for the duration of their deployment. The only amount they or their spouses have to pay is the principal portion of the payment. Once they return home, we give them an additional 90 days before we resume the original payment. This gives them an opportunity to get settled back into life as it once was. We forgive the interest that we suspended during their deployment. We do this because it is the right thing to do.

It is critical to understand that this is not a refinance program, it is a home purchase program. With a recent focus on National Guard troops and Reservists, the program has recently grown to new heights. In 2001, the program made \$230 million in loans; in 2002, \$320 million; in 2003, \$532 million; in 2004, \$1.012 billion; and in 2005, \$859 million. During this period, the rest of the market for loans was diminishing.

In the 109th Congress, H.R. 4297 was passed granting the States of Alaska, Oregon and Wisconsin the ability to do away with the arbitrary 1977 exclusion date that was in section 143 of the Internal Revenue Code. Under the Internal Revenue Code, veterans who entered active military service after December 31, 1976, are not eligible for QVMB-funded home loans. These deserving American men and women should be provided the same benefit as those veterans in Alaska, Oregon and Wisconsin. Through the passage of H.R. 4297 in the last session, those States now have the ability to fund all of their veteran borrowers with QVMB funds, thereby reducing the interest rate to all veterans, not just one class.

It is also important to understand that veteran borrowers are better served using Qualified Veteran Mortgage Bonds for housing loans. The issue is whether or not Qualified Mortgage Bonds (QMBs) are a suitable replacement for using Qualified Veterans Mortgage Bonds (QVMBs) to fund housing loans to Texas veterans. The answer is: QMBs are not a suitable replacement because of the State's allocated Private Activity Bond program (PAB) cap and QMB lending requirements.

The total amount of Texas' private activity cap allocated to single-family mortgage revenue bond issuers (i.e., QMB issuers) is only about \$559 million, and is primarily concentrated on lending to low-income borrowers. The Texas Veterans Land Board originated over \$600 million in housing loans to Texas veterans in FY07. The total VLB housing loan demand surpasses the entire amount of Private Activity Bond program cap available for the whole State.

More specific considerations that are problematic with using QMBs instead of QVMBs:

- *The Internal Revenue Code, Section 143(d)(1), requires that mortgagors borrowing from the proceeds of tax-exempt QMBs should not have a present ownership interest in a principal residence at any time during the 3-year period immediately before the date of obtaining the loan. This is referred to as the “first-time homebuyer” requirement.* The Veterans Housing Assistance program, administered by the VLB, is not a first-time homebuyer program. Eligible veterans may receive a QVMB-funded home loan with no such first-time homebuyer restriction. Using QMB proceeds to fund VLB loans would establish restrictions that are not consistent with the tradition of the program or the intent of the Texas Legislature and the VLB.
- *The purchase price of a residence must not exceed 90 percent of the average purchase price of all single-family residential sales during the last 12 months in the same statistical area as the financed property.* In 2005, the Texas Legislature authorized the VLB to set housing loan limits near the maximum loan amount guaranteed by the USDVA (currently \$325,000). By using QMB proceeds, it is likely that purchase price restrictions would be established that are different (and lower) than those already authorized for the VLB by law.
- *All of the mortgage loans financed with proceeds of QMBs must be made to persons whose family income is 115 percent or less of the applicable median family income. Family income and area median incomes are determined in accordance with Section 8 regulations under the Housing Act of 1937.* Currently, the VLB has no income restrictions for eligible veterans. Using QMBs for home loans would establish income limits that conflict with the tradition of the program and the intent of the Texas Legislature and the VLB.

Restrictions on loans made from the proceeds of QMBs, coupled with the very limited amount of Texas PAB cap on single-family mortgage revenue bond issuers facing loan demand from low-income borrowers, require veterans to borrow QMB money instead of QVMB money. This will result in a much smaller number of veterans being able to take advantage of the lower mortgage rates associated with loans made from the proceeds of tax-exempt bonds.

California and Texas share a commitment to serve our veterans, especially during this time of war. As the 110th Congress continues its work, we are asking for your support to end this inequity for our two States. Our men and women who have served in such places as Panama, the Persian Gulf, Somalia, the Balkans, Kuwait, Afghanistan and Iraq deserve our thanks and gratitude for a job well done. By supporting QVMB legislation, you will be honoring their service with this small act of financial support.

With the decision on BRAC 2005 realignment, Texas is now experiencing major growth in three key areas. El Paso County is home to Fort Bliss. With the influx of new units to Fort Bliss, the county's population will grow by 18,000–20,000 in the next 48 months. Bell and Coryell Counties are home to the Nation's largest military base, Fort Hood. Some 20,000 soldiers and their families are moving to the area. Bexar County, home to the finest burn care center in the world—Brook Army Medical Center, or BAMC—is also in the growth mode. The city of San Antonio and surrounding communities are planning for the relocation of about 25,000 soldiers and their families to the area.

I want to thank the Members of the Committee again for allowing me to submit testimony on this important program. On behalf of all Texas veterans, we appreciate your favorable consideration of this important measure.

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#### **Statement of Lori A. Brown, Military Spouse**

Thank you for your continued support of the members of the military and their families. I would like to share with you some of my experiences with the SSI program that my son, Hunter, has received SSI for 7 years and Dakota for 3 years.

My husband is active duty and has been in the Marine Corps for 13 years. We have three children. My two boys are on SSI. Dakota, age 13, is diagnosed with Asperger's Syndrome and Hunter, age 7, has cerebral palsy and epilepsy.

We have had many ups and downs with SSI over the years. The worst time was when my husband, Steve, went to Iraq for the start of the Iraq War and we were told by the local Social Security Office that Hunter would be losing his SSI and MediCal. We depended on the SSI payment to pay for things that his insurance just did not cover. We would have had to come up with about \$6,000–\$10,000 a month

to make up for losing the MediCal and SSI. We were very blessed when Congresswoman Davis took up our cause and shed light on what was going on and helped to get it changed.

There are still issues with the way that military dependent's SSI is figured. There are unfair "earned and unearned" labels put on our pays. The way the military LES looks, everything is broken down and itemized for accounting purposes but civilian's pay stubs are looked at as all "earned" income. This practice puts us at a great disadvantage. All the military families are looking for is equal rules for all civilian and military—no better, no worse.

Many families with special needs family members need to live close to a specific hospital or therapy center for their loved ones' well-being and health. But, under the current law, if they do not live on base, the BAH will count as "unearned" income and, therefore, they lose SSI. This is an issue that needs to get resolved.

For us personally, we have run into this situation and lost SSI for a few months while my husband was in Japan. I needed help in the home so I rented a house in town where I would be able to have my sister and family live with us to help me out. When we could no longer afford Hunter's bills we had to move back on base where I could not have help living in my home for more than 30 days.

Also, BAS is treated as "unearned" income as if it is money for the family. This money is not for the family, it is for the food for the servicemember. It should be counted as "earned" income.

Military Clothing Allowance is another one that is counted as "unearned" income. It is pay to buy uniforms that wear out during the year, not for the family. This money is woefully inadequate for this purpose. We pay out hundreds of dollars more each year for Steve's military needs above and beyond what is given as an allowance.

Special Pays, such as flight line pay, reenlistment bonuses, hazardous duty (non war), or jump pay are all counted as "unearned" income as well. These are pays that are given to Marines (or other branches) in certain jobs that rate an additional pay based on their job. This should be counted as "earned" income based on the fact it is just an extension of their base pay.

Any monies that are paid out for moving such as money for a DITY (Do It Yourself) move is counted as "unearned" income. This money is used for the servicemember to move themselves and their family to the new duty station or into housing.

I would also like to see that the money that the military member puts into their Thrift Savings Plan not be used as a way to disqualify a special needs military family member from SSI. Just because families have a disabled family member shouldn't mean that they can't save for their retirement just like all the other active duty military members.

Basically, I would like to see the word "UNEARNED" removed from the figuring process to qualify the disabled military dependent for SSI benefits. It is a slap in the face to all that serve this country and their families. The term is insulting and says that the Social Security Administration and those bodies of government that make the rules do not see that our servicemembers work for their money and this is just not true. The military and their families give all that is asked of them by this country and then they give a little more. We want equal rights and considerations in the computations for qualifying for government programs such as SSI.

Thank you for your time and consideration in this matter.

Lori A. Brown

*Proud wife of GySgt Steven M. Brown (newly promoted!)*

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### **Statement of Max Stier, Partnership for Public Service**

Chairmen Neal and McDermott, Representatives English and Weller, Members of the Subcommittees, thank you very much for the opportunity to submit this testimony in support of H.R. 2363, the bipartisan Generating Opportunity by Forgiving Educational Debt for Service Act (GOFEDS) introduced by Rep. Tim Bishop (D-NY). The language in H.R. 2363 complements many of the objectives of the Heroes Earnings Assistance and Relief Tax Act of 2007 and I believe it would be a positive addition to the legislation.

I am Max Stier, President and CEO of the Partnership for Public Service, a non-partisan, nonprofit organization dedicated to revitalizing the Federal Government. We appreciate your consideration of Representative Bishop's bill and would like to share our thoughts on its impact on both military and civilian employees and the agencies in which they serve. We also urge the Subcommittees to consider adopting

language from the bill when drafting the Heroes Earnings Assistance and Relief Tax Act of 2007.

The Partnership has two principal areas of focus. First, we work to inspire a new generation to Federal service. Second, we work with government leaders to help transform the business of government so that the best and brightest will enter, stay and succeed in meeting the challenges of our Nation. Given those objectives, identifying ways to attract new talent to Federal service is high on our list of priorities. We believe that H.R. 2363 has the potential to make a great impact on the government's ability to recruit the highly-skilled individuals needed in all branches of our military and our Federal civil service while yielding a significant return on investment.

Our country is facing unprecedented new challenges in a host of areas, from protecting our Nation against terrorism, to responding to catastrophic natural disasters like that of Hurricane Katrina. It is crucial that our armed services and Federal civilian agencies have some of our Nation's best and brightest minds to meet these challenges. Yet at a time when our need for technically- and intellectually-skilled employees is greatest, research indicates young people view the nonprofit sector, rather than government, as the best place to build a meaningful public service career. Compounding this problem, Partnership research finds conclusively that student debt is a growing barrier to attracting talented young people to government service. Rising education costs are essentially pricing the best and the brightest out of public service jobs.

According to data from the National Center for Education Statistics, more than half of full-time undergraduate students rely on student loans to finance their education. During the 2003–2004 academic year students took out an average of \$6,200 in loans. Over a 4-year period a student can accumulate over \$20,000 in debt. Individuals who pursue graduate school have even greater debt. Those completing master's degrees average \$32,900 in debt. Individuals earning doctorates or other advanced degrees can have an average debt as high as \$125,000.

H.R. 2363 is a straightforward bill. Under the proposal, any student loan repayment made by the Federal Government on behalf of an employee will not be taxed as part of that employee's income. The tax relief benefits uniformed servicemembers and Federal civil servants. We believe H.R. 2363 is a low-cost initiative that will do much to improve both the military and Federal Government's ability to recruit and retain the right people with the right skills. In addition, educational or nonprofit institutions are already able to offer tax-free loan repayment benefits to graduates who pursue government or nonprofit employment. H.R. 2363 puts the Federal Government's loan repayment program on equal footing with the programs offered by these institutions.

Mr. Chairmen, Members of the Subcommittees, we thank you for this opportunity to submit our views in strong support of H.R. 2363. We encourage the Subcommittees to consider incorporating the GOFEDS language as a provision in the Heroes Earnings Assistance and Relief Tax Act of 2007 or consider other vehicles to help move this bill forward.

National Multi Housing Council  
and  
National Apartment Association  
*October 31, 2007*

Jim McDermott  
Subcommittee on Income Security and Family Support  
Committee on Ways and Means  
U.S. House of Representatives  
1102 Longworth House Office Building  
Washington, D.C. 20515

Richard E. Neal  
Subcommittee on Select Revenue Measures  
Committee on Ways and Means  
U.S. House of Representatives  
1102 Longworth House Office Building  
Washington, D.C. 20515

Dear Chairman McDermott and Chairman Neal:

The National Multi Housing Council (NMHC) and the National Apartment Association (NAA) are pleased to present this statement to the Subcommittee on Income

Security and Family Support and the Subcommittee on Select Revenue Measures in connection with the joint hearing held October 17, 2007, to examine the *Heroes Earnings Assistance and Relief Tax Act of 2007 (HEART Act)*. NMHC and NAA represent the Nation's leading firms participating in the apartment industry. Our combined memberships include apartment owners, developers, managers, builders and lenders. NMHC and NAA jointly operate a Federal legislative program and provide a unified voice for the private apartment industry.

NMHC/NAA would like to thank you for your leadership in developing the HEART Act and for holding the joint hearing on the legislation. As the Ways and Means Committee continues to develop this legislation, we encourage you to consider including a provision to address the treatment of the Basic Allowance for Housing (BAH) that is modeled on H.R. 1481, *The Military Access to Housing Act of 2007*.

*The Military Access to Housing Act of 2007* allows BAH provided to servicemembers to be excluded from calculations of income for purposes of determining the servicemember's eligibility for various Federal rental housing programs, including the Low Income Housing Tax Credit program (LIHTC).

As Members of the Committee are aware, military installations do not always possess an adequate supply of military-owned housing to provide for the needs of all servicemembers. When the military is unable to provide military-owned housing to a servicemember and his or her family, the Department of Defense pays a BAH to the servicemember to allow him or her to acquire suitable housing in the private market.

The members of NMHC/NAA are committed to working with local communities and the Department of Defense in order to meet this demand for private housing. However, in some instances, it may be difficult for servicemembers, particularly those with large families, to find affordable housing in the private market. This can especially be a problem in instances where various base and troop realignments have resulted in an influx of personnel to some military installations and an adequate supply of affordable housing in the nearby communities has not yet developed.

In July 2006, the General Accountability Office (GAO) released a report examining the issue of the exclusion of servicemembers' housing allowances from income determinations for various housing programs. That report concluded that excluding BAH from eligible income would have a significant impact on the ability of many servicemembers to qualify for Federal housing programs. The servicemembers most affected by such a change, the GAO found, would be the soldiers in the lowest pay grades (particularly E-1 through E-4 enlisted personnel) and those soldiers with the largest families.

The GAO report also indicated that excluding BAH from income determinations for the LIHTC and tax-exempt multifamily housing bond programs could have the effect of stimulating the production of such housing. GAO cited some officials representing communities near growing installations as indicating that excluding BAH from eligibility determinations may make it more likely that programs such as the LIHTC could be used as a tool to build more affordable housing for incoming soldiers and their families.

This change in the treatment of BAH is consistent with its status as a tax-free benefit and with a change being considered for inclusion in the HEART Act that would change the treatment of military allowances (including BAH) when calculating SSI program eligibility and benefit amounts.

On behalf of the members of NMHC/NAA, we respectfully request your support for this important issue. We appreciate your work in this area and look forward to working with you to improve the housing for our Nation's military personnel.

Sincerely,

Doug Bibby  
*President*  
 National Multi Housing Council

Douglas S. Culkin, CAE  
*President*  
 National Apartment Association

**Statement of The Honorable Joe Courtney,  
a Representative in Congress from the State of Connecticut**

Chairman Neal and Chairman McDermott, thank you for the opportunity to provide my thoughts today on the Heroes Earnings Assistance and Relief Tax Act of 2007. I applaud your Subcommittees for drafting legislation to ease the burden on the men and women serving in our Nation's armed forces, and their families supporting them here at home.

In addition, I am grateful that you are considering including critical tax assistance for volunteer firefighters, who serve selflessly each and every day to protect our families and our communities.

Volunteer firefighters play one of the most critical roles in ensuring the safety of communities across eastern Connecticut, which I am proud to represent in Congress. In many areas across the region, they are the only responders for fire, medical and other emergencies. They serve not for financial gain, but out of a sense of duty and responsibility to their friends and neighbors. However, like most Americans, volunteer firefighters are finding it increasingly difficult to find not only the time to serve, but to make ends meet as the medical, education and energy costs facing our middle class working families continue to increase.

To address this problem, the Connecticut General Assembly passed a law in 1999 which allowed local governments to abate the property taxes of any resident who volunteers his or her services as a firefighter. However, as cities and towns tried to develop incentives to take advantage of this law, the Internal Revenue Service (IRS) ruled in 2002 that the amount of property tax abated for volunteers was considered income subject to Federal taxation.

Taxing the tax breaks meant to retain and recruit volunteer firefighters clearly undermines the purpose of providing incentives for individuals to volunteer their time to keep their communities safe. Unfortunately, in light of this misguided ruling, many towns were forced to repeal their abatement incentives, or prevented from even considering such programs.

I know first hand the chilling effect this ruling had on communities in Connecticut looking to implement a volunteer firefighter tax incentive program. Prior to being elected to Congress, I served as Town Attorney for the Town of Vernon, Connecticut, which has an all volunteer fire department. In 2004, the town council began considering a tax abatement program for their volunteer firefighters, but was forced to drop the plan in light of the IRS ruling. As a result, volunteer firefighters in Vernon, and countless other communities across eastern Connecticut, are denied critical assistance as they serve.

Sometimes the best thing the Federal Government can do to support our State and local governments is to simply get out of their way as they find creative and effective solutions to critical challenges facing our Nation. This is clearly one of those cases, and I strongly believe that we need to change Federal law to exempt local tax incentives provided for service as volunteer firefighters from income taxes. I am proud to support the Volunteer Responder Incentive Protection Act (H.R. 943), introduced by my friend and colleague Representative John Larson, which would amend the Tax Code to not only protect local tax incentives for volunteer firefighters from income taxes, but also other benefits that a local or State government may provide for their services.

For a region like eastern Connecticut, which relies primarily on the time and dedication of volunteers to staff its fire departments, finding ways to ease the burden on volunteer firefighters is absolutely critical. Given all that they do to safeguard our families and communities, the very least we can do is make it just a little easier for them to pay their bills as they continue to serve. I am proud to serve in the Connecticut Congressional Delegation with Representative John Larson, who has championed this issue on behalf of volunteers in our State, and across the Nation, since 2002. I applaud him for his dedication to this cause, and urge you to include the provisions of H.R. 943 in the draft legislation before you.

There is never enough we can do for those who give their time, energy and devotion to protecting the lives of others. However, the "Heroes Earnings Assistance and Relief Tax Act of 2007" would help ease the financial burdens of those who serve our communities, States and our Nation, and I look forward to supporting it once introduced.

Thank you for the opportunity to discuss this important issue with you today.

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**Statement of the Honorable Tom Davis,  
a Representative in Congress from the State of Virginia**

Mr. Chairmen and Members of the Subcommittees, thank you for holding this joint hearing on legislative proposals designed to help those who have dedicated their lives to serving our country.

The Oversight and Government Reform Committee spends considerable time and effort identifying ways to recruit and retain a strong Federal workforce, especially in light of the pending wave of retirements expected to hit the Federal Government in the coming years. The legislative proposals I will discuss today would help the Federal Government attract the best and the brightest employees this Nation has to offer.

The first bill is H.R. 1110, commonly referred to as “premium conversion.” I have sponsored this legislation for many Congresses now, and it has always enjoyed broad bipartisan support, collecting 340 cosponsors in the 109th Congress (H.R. 994). The Oversight and Government Reform Committee marked up H.R. 1110 in September, and it is now pending before this Committee.

H.R. 1110 has widespread support for good reason. It would end a longstanding discrepancy by allowing Federal civilian and military retirees to pay their monthly health care premiums using pre-tax dollars. Also, it would allow active duty military members to apply a pre-tax rebate to the supplemental insurance premiums most purchase to cover gaps in TRICARE. This legislation would build upon a provision included in the Pension Protection Act of 2006 which allows Federal public safety officers a limited premium conversion tax advantage.

Health care costs in the Federal Employees Health Benefits Program have gone up by over 9 percent a year since 1999. H.R. 1110 would alleviate these increases by saving retirees nearly \$800 annually. To those on a fixed income, that amount of money can make a huge difference.

The Federal Government has a long history of treating our active employees and retirees the same—providing them equal access to health care, for example. Our retirees should have the same ability to pay their premiums with pre-tax dollars as current Federal employees, and our military personnel should be able to do the same under their TRICARE programs.

I look forward to working with the Subcommittee Chairs this Congress to try to get this important legislation enacted into law.

The second piece of legislation is H.R. 2363, introduced by Rep. Tim Bishop (D-NY) and myself, called the Generating Opportunity by Forgiving Educational Debt for Service Act of 2007, better known as GOFEDS.

GOFEDS seeks to attract and retain employees who have recently completed undergraduate or graduate-level education by allowing them to exclude their student loan repayments from gross income.

The challenges we face—from homeland security to pandemic health crises to energy supplies—will require a committed and talented human capital pool. But more and more, young Americans are opting for employment in the private and nonprofit sectors, leaving the Federal Government hard-pressed to attract the right people to the right jobs.

In a recent report on the need to build expertise in the Federal workforce to protect the Nation from bioterrorism, the Partnership for Public Service pointed out that bio-defense agencies are finding it increasingly difficult to hire employees with the required scientific and medical expertise. The overall demand for bio-defense talent will continue to rise for the foreseeable future—by as much as 25 percent through 2010—while the supply of such talent will decline unless we act.

The GOFEDS Act would improve the effectiveness of the existing loan repayment program as a recruitment tool and in turn improve Federal programs. While current law allows Federal agencies to repay student loans on behalf of employees, up to \$10,000 a year with a \$60,000 cap, the incentive is taxed. Nonprofits and educational institutions offer loan repayments which, in contrast, are not counted as taxable income for the recipient. H.R. 2363 simply puts the Federal Government on par with nonprofits by excluding loan repayment from the employees’ taxable income.

I look forward to working with the Ways and Means Committee and other interested Members of Congress on these important initiatives so that we can better meet the Federal Government’s workforce challenges, which are so critical to the success of the Federal Government’s core missions, today and in the future. Thank you.