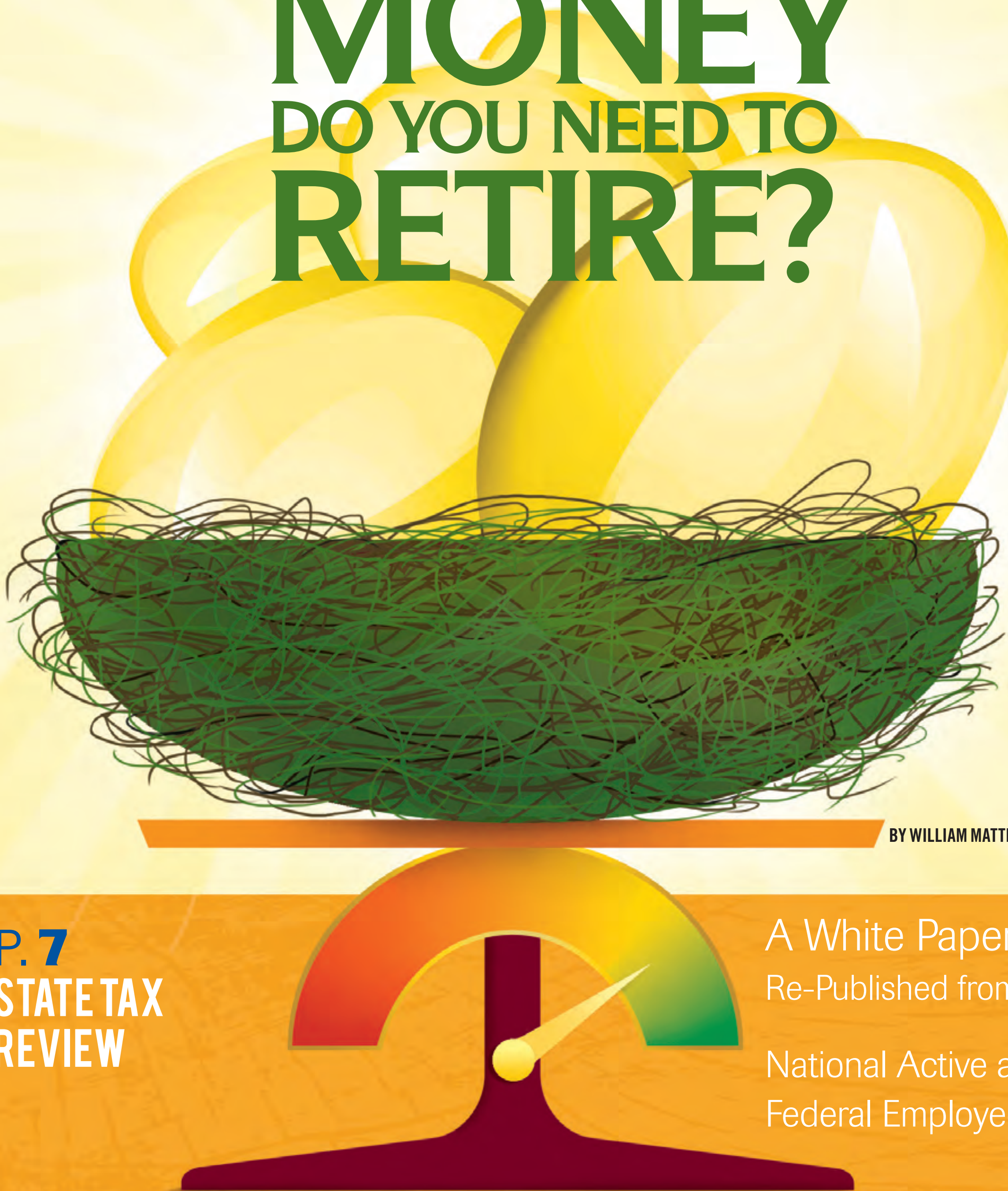
HOW MUCH MONEY DO YOU NEED TO RETIRE?



BY WILLIAM MATTHEWS

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HOW MUCH MONEY DO YOU NEED TO RETIRE?

It depends . . .

Some financial advisers say you will need enough income to replace 75 percent to 85 percent of your pre-retirement income. Others say 55 percent will do. And still others insist that you will need 110 percent.

Here’s another approach: 11 times your final salary, if you are age 65. That drops to 9.4 times if you’re 67 and climbs to 13.5 times if you are 62, claims human resources firm Aon Hewitt.

Or how about this: 25 times your pre-retirement living expenses minus the amount you will receive from Social Security and annuities?

Too confusing? How about a nice round number: $1 million?

HOW MUCH MONEY DO YOU NEED TO RETIRE?

A multi-billion dollar industry prospers by trying to answer this question. But according to retirement experts, whatever formula you use, it almost always takes careful planning and decades of working and saving to achieve retirement goals. Thanks to retirement annuities, a stellar 401(k)-type savings plan and continued health insurance, long-term federal employees are among those best prepared for post-employment life. A lot of others, however, are not.

"Broadly, we see a one-third, one-third, one-third division" among workers approaching retirement age, says Jean Young, senior research analyst at the Vanguard mutual fund company's Center for Retirement Research. That is, only about one third of workers reach retirement age with enough to retire comfortably.

Another third "can get there if they make changes in behavior that are doable," Young says. Key among the needed changes is saving more – perhaps 20 percent or more of their income.

"And then you have a third that don't have a shot," Young says. Workers in that unfortunate group typically have had lower-income jobs, unsteady employment and managed to accumulate little or no savings. So they're left with few choices: scrape by on Social Security, count on the kindness of relatives or keep working.

Anthony Webb, a senior research economist at the Boston College Center for Retirement Research, sees an even bleaker picture. On average, households approaching retirement age – between 55 and 64 – have just $120,000 in retirement accounts, he says. That's a small fraction of the amount needed for a 25- or 30-year retirement.

"More than half of today's households will not have enough retirement income to maintain their pre-retirement standard of living, even if they work to age 65, which is above the current average retirement age," and even if they tap unconventional income sources, such as a reverse mortgage on their homes, Webb writes in the latest update of the *National Retirement Risk Index*.

"They face a number of unpalatable choices: save more, postpone retirement or accept a sizeable drop in their standard of living," he said in an interview.

The United States is not a nation of savers. The U.S. savings rate fell to 4.2 percent last November, according to the Commerce Department. That's far less than the 10-20 percent savings rate that many retirement experts say is necessary to build the savings needed to support a comfortable life after work.

The picture is brighter for many federal government employees. Generally, "a federal employee who has spent an entire career in government will have no problem reaching retirement goals," says Tammy Flanagan, senior benefits director for the National Institute of Transition Planning, Inc.

Under the older Civil Service Retirement System (CSRS), federal workers who are at least age 55 and have worked for the government at least 30 years can retire with annuity payments worth about 65 percent of the average of their highest three years of pay. Add to that money saved in the federal Thrift Savings Plan (TSP), and federal workers under CSRS can easily replace 70-80 percent of their pre-retirement pay, Flanagan says.

Federal workers covered by the newer Federal Employees Retirement System (FERS) and who work for 35 years receive 35 percent of their highest three years of pay plus Social Security, which, depending on salary, is another 20 to 25 percent of pay. Add to that what they have saved in the TSP plus a government match of up to 5 percent, and they, too, can easily meet the income replacement goal of 70-80 percent, she says.

But to earn those benefits, workers have to put in long federal careers. A generation ago, it was not unusual for people to graduate from high school or college, join the federal government and stay until retirement, Flanagan says. Today, that's less common.

"I'm running into a lot more employees who came in (to the federal government) in mid-career," she says.

It's part of a national trend. According to the Bureau of Labor Statistics, workers born between 1957 and 1964 have an average of 11 jobs by the time they are age 46.

That variety might make working life more interesting, but it can reduce federal retirement benefits substantially. And in the private sector, job-hopping employees may not become fully vested in private pensions, which are increasingly scarce anyway, so they will have to rely more on personal savings for retirement income.

RULES OF THUMB

So, back to the original question. What is needed for a comfortable retirement?

There are lots of rules of thumb: a particular percentage of your pre-retirement income, a certain multiple of your estimated retirement expenses, an impressive – or daunting – lump sum.

"But they're just that, rules of thumb," says Young of Vanguard. To know for sure whether you are in a position to retire, "you really need to understand your own expenses and how they might change in retirement," she says.

The rules of thumb are based on broad assumptions, she adds. "You need to understand your own spending."

Still, the rules of thumb provide a place to begin planning.

One of the most-cited rules is that you will need 70 percent to 80 percent of your pre-retirement income to maintain your current standard of living. Young prefers 75 percent to 85 percent, but notes that those with higher incomes will need a lower replacement percentage, and those with lower incomes will need a higher one.

The logic behind the rule is that retirees need less income because their expenses go down. Here's why: Taxes are lower because taxable income decreases, Social Security and Medicare taxes end when you stop working, Social Security benefits are partially or fully tax-free, and there are extra tax deductions for people over age 65. Also, retirees no longer have to save for retirement, and work-related expenses such as commuting and work clothing can be eliminated.

The RETIRE Project at Georgia State University estimates that a household with an income of $50,000 will need about 80 percent of that – $40,000 – to maintain the same standard of living in retirement; but a household that earned $20,000 will need to replace 94 percent in retirement. That's because lower-income earners generally cannot afford to save as much for retirement, and since they pay less in taxes while working, the tax breaks they gain from retiring will be smaller.

Meanwhile, a household that earned $90,000 needs to replace 78 percent – or $70,200 – to maintain the same standard of living in retirement.

But rules of thumb typically fail to account for a variety of variables, says Webb of Boston College. They don't consider that expenses decline when children grow up and leave home and that mortgages are often paid off. On the other hand, they don't account for increased expenses in health insurance and long-term care. Nor do they factor in expenses such as travel that are more likely to be higher early in retirement but lower later on, he says.

So while a rule of thumb is a good starting point, he says, it's essential for retirees and would-be retirees to factor in their personal circumstances.

David Blanchett, who heads retirement research at Morningstar Investment Management, agrees. "While a replacement rate between 70 percent and 80 percent is likely a reasonable starting place for most households, the actual replacement goal can vary considerably." In his analysis, replacement rates can be as low as 54 percent or as high as 87 percent, he wrote in a November report, *Estimating the True Cost of Retirement*.

A newer method for estimating the savings needed for retirement concludes that you will need to save 11 times your final salary. That plus Social Security should do it, says human resources consulting firm Aon Hewitt.

Here's how Aon Hewitt figures this: "The amount needed at retirement age to cover retirement expenses through an average life expectancy (age 87 for males, age 88 for females) is 15.9 times pay," the company says in a 2012 report. "This assumes the cost of goods and services and medical expenses will increase over time due to inflation.

"Since Social Security will pay for some of these expenses, the employee will need to have

Rules of thumb fail, typically, to account for a variety of variables.

saved 11.0 times pay at retirement through their employer plans and their own savings."

So if your final salary was $50,000 a year, you'll need $550,000 in retirement savings. If you made $90,909, you'll need $1 million.

Unhappily, Aon Hewitt says its analysis indicates that most people who are saving for retirement are falling short. "Approximately 70 percent of those who put money into employer-sponsored savings plans are not on track to retire with adequate financial resources," the company says.

Another approach to calculating retirement needs is to look not at savings or final salaries, but at spending. This rule of thumb says to save 25 times your estimated annual post-retirement spending.

Here's a hypothetical example offered by the financial services firm Charles Schwab: Your annual expenses will be $70,000 a year. You will get $22,000 a year from Social Security, so you can subtract that. And you'll have $12,000 more coming in from a pension, rental property or other sources, so subtract that, too. That leaves $36,000.

Multiply $36,000 by 25 and that's what you will need in savings to retire – $900,000. The assumption here is that you'll withdraw 4 percent of that sum each year. At that rate, your savings will last 25 years – longer if it's invested well enough to outpace inflation.

Here's an even older rule of thumb: $1 million.

Invested wisely, a million dollars should produce a 4 percent annual return, or $40,000 a year in income. But the value of $40,000 will be steadily eroded by inflation. To offset that, you will need to withdraw a bit more than $40,000 each year. Even so, your $1 million nest egg should last for 30 years, Young says.

RETIREMENT REALITY

When Kim Newlin, a Commerce Department statistician, was preparing to retire, he analyzed his expenses and concluded he would need 68 percent of his income each year to live comfortably. To test the accuracy of his calculations, Newlin decided to live on 68 percent of his income for the next three years. He invested the rest in inflation-proof bonds.

"I wanted proof that we could live on 68 percent. Once you retire, it's pretty hard to go back," he says. "We did very well living on 68 percent," he says. "But we're a fairly conservative couple. We don't splurge or eat out or go to the movies very much. We keep our cars for a long time."

After nine years in retirement, Newlin offers this advice: "You have to be willing to decide what is a need versus what is a want. Food, clothing and shelter you've got to have. The other things are nice to have. You've got to be able to live conservatively."

Newlin says his federal annuity's cost-of-living increases haven't always kept up with rising prices, and that has caused him to spend less on nonessentials such as travel. "But we have not felt too squeezed." This year, since he will turn 70-1/2, he will have to begin withdrawing money from his individual retirement accounts. That, he says, might give him "more money than I know what to do with."

When Kosuke Vasquez dreamed of retiring from the Environmental Protection Agency in Virginia, he envisioned "doing some traveling with my wife, going back home to Hawaii, trading in the car for a motorcycle, fixing up the house."

He planned a retirement budget equivalent to 70 percent of his final pay. His CSRS annuity would provide 66 percent, and investments and a part-time job would make up the rest.

"I was very confident prior to retiring that I had saved enough," Vasquez says. But that was before his wife suffered "catastrophic health issues." Previously, she had earned about 40 percent of the household income. "I have changed my goals in order to make the money last," Vasquez says.

Health care costs and home repairs consumed half of the $120,000 he had in his TSP, and his children, who had just graduated from college, needed financial help. Fortunately, he says, he also had money invested in mutual funds.

"I'm still fairly confident that we will be okay, but I have set my sights lower," Vasquez says. "My retirement is nothing like I imagined. I am glad I saved as I did while working for the government. Although the money has not gone for travel, a motorcycle or other dreams, it was there when I needed it to repair the house, help my children and take care of my wife, who is now disabled. I am her primary caregiver, and to be able to do that makes me feel very fortunate. I am truly grateful for what I have."

Retirement has proven pretty Spartan for Arne Sampe.

When the Sacramento Army Depot closed in 1993, Sampe, a systems analyst, was left with two choices – a long-distance commute to another Army job, or retire. "I couldn't commute 50 miles a day to work," he says. So he opted for retirement.

Invested wisely, your $1 million nest egg should last 30 years.

Sampe started retirement planning based on "the general advice" that he would still need about 80 percent of his working pay. But when he compared that amount to his expected lifestyle, he decided that 60 percent would be adequate. "I decided not to have a wild lifestyle."

In addition to his CSRS annuity, Sampe was eligible for Social Security benefits from non-federal employment. But his federal annuity triggered the Windfall Elimination Provision, which he says cut his Social Security by more than half, leaving him with just $69 a month to augment his CSRS payment.

"I can live on 60 percent," he says. "But there aren't any extensive trips or lavish vacations – but I didn't do that before retirement. If I had to make a house payment, I couldn't do it."

Sampe says his spending has changed in retirement: "Recreation decreased, travel decreased, transportation increased, food increased, housing costs increased, impulse buying decreased, medical costs increased."

"I do not believe that most working people can save enough to meet [retirement] goals." Instead, retirement income should be paid by employers, he says. But the trend is for employers to provide less. "I anticipate that in 20 years, most employees not on employer retirement plans will either be on Supplemental Security Income (for the aged and disabled), dead or rioting," Sampe says. "The current systems do not support blue-collar workers. I do foresee a retirement crisis coming."

But then there are people like Louis Bornman.

"I came up with a retirement income that was at least 115 percent of my last year's basic pay," says Bornman, a research analyst who retired in 2011 from the Army with a military pension based on active-duty and reserve service, a FERS annuity based on a civilian career and a healthy investment account.

In that retirement trifecta, Bornman emphasizes the importance of savings. "I tried to make the maximum Thrift Savings Plan contribution and get the maximum matching contribution I could get for at least the last 15 years of employment," Bornman explains. "I knew that I had to try to get at least $500,000 into the TSP to be able to make a reasonable return after retirement and to have that money last 20 to 30 years." Since retiring, Bornman says he moved his TSP into an IRA, and his investments have grown by $60,000 despite withdrawing $2,000 a month.

"You have to sacrifice in the early years to put as much as you possibly can into your TSP to maximize your matching contributions," Bornman advises. "I remember times I was really tight on money, but I did not reduce my contributions." And as his salary increased, so did his TSP contributions.

"I knew that the TSP savings would be able to make a huge difference in my financial comfort level when I retired," he says. "I had studied what that money could grow to, and I did not want to retire poor."

And he didn't. n

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STATE TAX TREATMENT of FEDERAL ANNUITIES

States With No Personal Income Taxes

ALASKA
FLORIDA
NEVADA
NEW HAMPSHIRE[1]
SOUTH DAKOTA
TENNESSEE[2]
TEXAS
WASHINGTON
WYOMING

[1] NEW HAMPSHIRE: Taxes interest/dividend income at 5% if it exceeds $2,400 (single) or $4,800 (couple). $1,200 exemption for residents age 65+.

[2] TENNESSEE: Taxes certain interest/dividend income at 6% if it exceeds $1,250 (single) or $2,500 (couple).

States Exempting Total Amount of Civil Service Annuities

ALABAMA
HAWAII
ILLINOIS
KANSAS
KENTUCKY[1]
LOUISIANA
MASSACHUSETTS
MICHIGAN[2]
MISSISSIPPI
NEW YORK
NORTH CAROLINA[3]
OREGON[4]
PENNSYLVANIA
TENNESSEE

[1] KENTUCKY: Amount attributable to service prior to January 1, 1998, is exempt. See below for taxation of annuities attributable to service on or after January 1, 1998.

[2] MICHIGAN: Full exemption only applicable to taxpayers born before 1946. See below for taxation of federal (and other) pension income for taxpayers born 1946 and later.

[3] NORTH CAROLINA: Annuities not taxed if the individual had five years of government service as of August 12, 1989. If otherwise, see below.

[4] OREGON: Annuities of those who retired before October 1, 1991, are not taxed. Those who retired after October 1, 1991, are taxed only on that portion of the annuity attributable to government service after October 1, 1991.

Other Exemptions

NOTE:
AGI=Adjusted Gross Income
CSRS=Civil Service Retirement System
FERS=Federal Employees Retirement System
HH=Head of Household
IRA=Individual Retirement Account
MFJ=Married Filing Jointly
MFS=Married Filing Separately
QW=Qualified Widow(er)
RR=Railroad Retirement
SS=Social Security

ALABAMA: Federal retirement, military retirement, state pension income, SS are exempt. Income from certain defined-benefit pension plans is exempt.

ARIZONA: $2,500 exclusion for federal, military, and Arizona state and local pension income. SS and RR are exempt. Additional personal exemption for all residents age 65+. May subtract qualifying long-term care premiums if itemizing deductions.

ARKANSAS: Exempts up to $6,000 in federal retirement, military, in-state and out-of-state state or local government and private pension income. IRA distributions can be included as part of the exemption if the taxpayer is age 59-1/2+. SS and Tier 1 and Tier 2 RR benefits are exempt.

CALIFORNIA: SS and RR are exempt. Additional $106 personal exemption for residents age 65+. Residents age 65+ with AGI below $67,521 who qualified as HH in 2011 or 2012 by providing a household for a qualifying individual who died during 2011 or 2012 may claim a tax credit of 2% of their income, up to a maximum of $1,272. All private and public pensions are taxed.

COLORADO: $20,000 pension/annuity exemption for all taxpayers between the ages of 55 and 64. $24,000 pension/annuity exemption for all taxpayers age 65+. Exemption applies to SS, RR and other qualifying retirement income (including federal civil service annuities and military retirement).

2013 TAX YEAR

This roundup of state tax treatment of federal annuities and other tax information was compiled by the NARFE Legislative Department. It is presented for informational purposes only and does not constitute professional tax advice. Please consult a tax professional for advice in preparing tax returns. The information also is available on the NARFE website, www.narfe.org.

CONNECTICUT: SS is exempt if federal AGI is $50,000 or less (if single or MFS), or $60,000 or less (if MFJ, HH or QW with dependent child). Exempts 50% of federally taxable military retirement pay.

DELAWARE: Taxpayers age 60+ may exclude $12,500 of investment and qualified pension income (including out-of-state and federal government pensions), and qualify for an additional tax credit of $110. Taxpayers under age 60 may exclude $2,000. Taxpayers age 65+ (or blind) are entitled to an additional standard deduction of $3,250 (if not itemizing). Single or MFS taxpayers age 60+ as of December 31, 2013, or totally disabled, may exclude $2,000 if earned income is less than $2,500, and AGI is $10,000 or less. If MFJ and both spouses are age 60+ as of December 31, 2013, or totally disabled, may exclude $4,000 if earned income is less than $5,000, and AGI is $20,000 or less. SS and RR are exempt.

DISTRICT OF COLUMBIA: Taxpayers age 62+ may exclude $3,000 of military, federal and DC government pensions. For taxpayers age 62+, DC or federal government survivor benefits are exempt from DC tax. SS and Tier 1 RR are exempt.

GEORGIA: Taxpayers who are age 62-64, or permanently and totally disabled regardless of age, may exclude $35,000 of retirement income. For taxpayers age 65+, the retirement income tax exclusion is $65,000. Retirement income includes income from pensions and annuities, interest income, dividend income, net income from rental property, capital gains income and income from royalties. Up to $4,000 of the maximum allowable exclusion may be earned income. SS and RR are exempt.

HAWAII: Federal retirement, military retirement, state or county retirement system pension income, SS, Tier 1 RR benefits and qualifying distributions from employer-funded pensions are exempt. Additional personal exemption of $1,144 per person age 65+.

IDAHO: SS and RR are exempt. Retirement benefits deduction available for CSRS annuitants who established CSRS eligibility prior to 1984, who are age 65+, or 62+ and disabled, in the amount of $30,396 (if single) or $45,594 (MFJ) minus SS and RR received. Retirement benefits deduction also available for military retirees. Persons using MFS status are not eligible for the retirement benefits deduction. May deduct health insurance and qualified long-term care premiums (within limits).

ILLINOIS: SS, RR and income from any qualified employee benefit plan are exempt (including federal civil service annuities).

INDIANA: SS and RR benefits are exempt. Taxpayers age 60+ may exclude up to $5,000 of military retirement income. Taxpayers age 62+ may deduct up to $2,000 of a federal civil service annuity minus the total amount of any SS or RR benefits. Additional personal exemption of $500 if federal AGI is less than $40,000 for residents age 65+. May deduct from income premiums paid for long-term care insurance through the Indiana Partnership.

IOWA: Taxpayers age 55+ may exclude up to $6,000 (if single) or $12,000 (if MFJ) of pension or annuity income (including civil service annuities), self-employed retirement plan income, deferred compensation, IRA benefits or other retirement plan benefit income (not including SS). 89% of federally taxable SS benefits are excluded. RR benefits are exempt but used to calculate amount of federally taxable SS benefits. Additional $20 personal exemption credit for those age 65+.

KANSAS: Federal, RR, military, in-state/local pensions are exempt. SS is exempt if federal AGI is $75,000 or less; otherwise, only federally taxable benefits taxed. Additional $850 deduction for those age 65+ ($700 each if MFJ or MFS).

KENTUCKY: Federal civilian and military retirement annuities attributable to service prior to January 1, 1998, are excluded. Annuities attributable to service after January 1, 1998, are included as pension income, of which taxpayers may exclude up to $41,110. SS and RR benefits are exempt. May deduct amount of health, dental and long-term care premiums.

LOUISIANA: SS is exempt. Federal retirement annuities are exempt. In addition, persons age 65+ may exclude up to $6,000 of annual retirement income from their taxable income.

MAINE: SS and RR are exempt. May deduct $6,000 of eligible pension income, including federal civil service annuity income, from federal AGI. Except for military income, the $6,000 deduction must be reduced for SS and RR benefits. Additional standard deductions: for individuals, $1,500 if age 65+; for MFS, MFJ or QW, $1,200 per spouse or person who is age 65+. Long-term care premiums are deductible.

MARYLAND: SS and RR are exempt. If age 65+, may exclude up to $27,800 in pension income, reduced by SS or RR benefits. Additional $1,000 exemption for residents age 65+. Additional

$5,000 exemption for military retirement income received by an individual of any age or the surviving spouse or ex-spouse of the individual if the individual was a member of an active or reserve component of the U.S. military, an active duty member of the commissioned corps of the Public Health Service, the National Oceanic and Atmospheric Administration, the Coast and Geodetic Survey, or a member of the Maryland National Guard.

MASSACHUSETTS: SS, civil service annuities are exempt. Additional exemption of $700 for individuals age 65+.

MICHIGAN: For taxpayers born before 1946, SS, RR, military retirement annuity, and all state and federal pension income is exempt. Private pension income is exempt up to $48,302 (individual filers) or $96,605 (MFJ), reduced by the amount of any public pension deduction claimed. Also may deduct interest, dividends and capital gains up to $10,767 (individual filers) or $21,534 (MFJ).

For taxpayers born in 1946-1952, before the taxpayer reaches age 67, public and private pension income is exempt only up to $20,000 (single) or $40,000 (MFJ), and no deduction is allowed for interest, dividends and capital gains. After reaching age 67, taxpayers born in 1946-1952 are allowed a $20,000 (single) or $40,000 (MFJ) subtraction against all income, but are ineligible for this income subtraction if claiming a military or Tier 2 RR pension exclusion.

For taxpayers born in 1953 or later, SS, RR and military pensions are exempt. But there is no public or private pension exemption or interest, dividends and capital gains exemption before the individual reaches age 67. Once 67, those taxpayers may elect either to exempt up to $20,000 (single) or $40,000 (MFJ) without any exemption for SS, RR or military retirement and no personal exemptions, or they may elect to exempt SS, military and RR and claim personal exemptions.

Additional details for the 2013 tax year are available at: www.michigan.gov/documents/taxes/4884_Inst_443078_7.pdf.

MINNESOTA: RR is exempt.

MISSISSIPPI: Qualified retirement income (including federal retirement annuities and SS) is exempt. Additional exemption of $1,500 for residents age 65+.

MISSOURI: Taxpayers with AGI under $85,000 (single, HH, MFS, QW) or $100,000 (MFJ) may exempt the greater of $6,000 or 100% of any federal, state or local pension income, up to a maximum of $35,939 per taxpayer. Taxpayers with AGI under $25,000 (single, HH, QW) or $32,000 (MFJ) or $16,000 (MFS) may exempt $6,000 of private pension income. Taxpayers with AGI over these limits must reduce their private pension exemption dollar for dollar as income exceeds the limit. Taxpayers age 62+ or disabled with an AGI under $85,000 (single, HH, MFS, QW) or $100,000 (MFJ) may exempt 100% of the taxable amount of SS or SS disability benefits, but must reduce the exemption dollar for dollar as income exceeds the limit. Additional exemption (60%) for military pension income. May deduct long-term care premiums.

MONTANA: Taxpayers with AGI under $32,480 may exclude $3,900 of pension income; for AGI above $32,480, the pension income exclusion is reduced $2 for every $1 of AGI above $32,480. RR benefits are exempt. Additional exemption of $2,280 if age 65+. Taxpayers age 65+ may exempt $800 of interest income reported as federal AGI or $1,600 if MFJ.

NEBRASKA: Tier I and II RR benefits are exempt.

NEW JERSEY: SS and RR benefits are exempt. Taxpayers age 62+ may exclude up to $10,000 (MFS), $15,000 (single) or $20,000 (MFJ) of pensions, annuities and IRA withdrawals, provided gross income is not more than $100,000. In addition, taxpayers age 62+ with earned income (from wages, net business profits, distributive share of partnership income and net pro-rata share of S corporation income) of $3,000 or less, and with gross income not more than $100,000, may exclude other nonpension retirement income up to the maximum exclusion amount. If ineligible for SS or RR, entitled to deduct an additional $3,000 (single, MFS) or $6,000 (MFJ, HH, QW). Military pensions are exempt. Additional $1,000 personal exemption for residents age 65+. If taxpayers can recover all civil service retirement contributions in the first three years, can use the three-year rule, in which annuities are not taxed until total employee contributions have been recovered. If not, must use the general rule method, in which a portion of annuity is excluded from taxation.

NEW MEXICO: Taxpayers age 65+ or blind may qualify for additional exemption of $8,000 if federal AGI is less than $15,000 (MFS), $18,000 (single) or $30,000 (MFJ, HH, QW). The exemption reduces as income increases, with no exemption if income is over $25,500 (MFS), $28,500 (single) or $51,000 (MFJ). RR is exempt. If age 100+, exempt from state income tax but only if centenarian cannot be claimed as a dependent by someone else.

NEW YORK: State and federal pensions exempt completely. An additional pension and annuity income exclusion of up to $20,000 is available to persons age 59-1/2+. SS and RR are exempt.

NORTH CAROLINA: Pursuant to the North Carolina Supreme Court's decision in *Bailey v. State of North Carolina*, the state may not tax certain retirement benefits received by federal civil service and military retirees or retirees of the state of North Carolina and its local governments if the retiree has five or more years of creditable service as of August 12, 1989. If retirees in those categories did not have five years of service as of August 12, 1989, they may deduct the amount included in federal taxable income or $4,000, whichever is less. This deduction also applies to retirement benefits paid to former teachers and state employees of other states and their political subdivisions regardless of the five-year service date. If MFJ and both spouses received federal, state or local government retirement benefits, each may deduct up to a maximum of $4,000. If an individual's federal taxable income includes retirement benefits from a private retirement plan, a deduction of up to $2,000 may be available. If an individual received both government and private retirement benefits, the maximum deduction is the total amount included in federal taxable income or $4,000, whichever is less.

NORTH DAKOTA: RR is exempt. May exclude 40% of net long-term capital gains and qualified dividends.

OHIO: SS and RR are exempt. General retirement income credit available in an amount starting at $25 if qualifying retirement income is at least $500, and maxing out at $200, if qualifying retirement income is $8,000 or more. Residents age 65+ are entitled to a $50 tax credit per return. Military pension income is exempt. Taxpayers who served in the military and receive a federal civil service retirement pension are eligible for a limited deduction if any portion of their federal retirement pay is based on credit for their military service. These retirees can deduct the percentage (in terms of years of service) of the amount of their federal retirement pay that is attributable to their military service. May deduct long-term care premiums.

OKLAHOMA: SS is exempt. Each individual may exclude 100% of retirement benefits received from federal CSRS, including survivor benefits, paid in lieu of Social Security to the extent that these benefits are included in the federal AGI. Note: Retirement benefits paid under FERS do not qualify for this exclusion. However, for retirement benefits containing both a FERS and a CSRS component, the CSRS component will qualify for the exclusion. Individuals may exclude their FERS retirement benefits or Oklahoma state employment retirement benefits or other qualifying retirement income up to $10,000. Individuals may exclude the greater of 75% of their military retirement benefits or $10,000. Additional personal exemption of $1,000 if age 65+ and federal AGI is $15,000 or less (single), $25,000 or less (MFJ), $12,500 or less (MFS), or $19,000 or less (HH).

OREGON: Federal civil service annuities of those who retired before October 1, 1991, are not taxed. Those who retired after October 1, 1991, are taxed only on that portion of the annuity attributable to government service after October 1, 1991. Taxpayers age 62+ may qualify for retirement income credit (see worksheet regarding line 34) if household income is below $22,500 (or $45,000 if MFJ) or elderly tax credit (40% of federal credit), but may not claim both. SS and RR benefits are exempt. Additional standard deduction if age 65+ of $1,200 (single, HH), $1,000 each spouse age 65+ (MFJ, MFS and QW).

PENNSYLVANIA: SS, RR, federal civil service, military retirement benefits and other employer-sponsored retirement plan benefits exempt. Distributions from IRAs, if age 59-1/2, are exempt.

RHODE ISLAND: RR is exempt.

SOUTH CAROLINA: If below age 65, may deduct $3,000 of qualified retirement income (including federal retirement annuities). If age 65+, may deduct $10,000 of qualified retirement income (including federal retirement annuities). All individuals age 65+ are entitled to a $15,000 deduction from income, reduced by any deduction claimed for qualified retirement income. SS and RR are exempt.

TENNESSEE: Tax applies only to certain interest and dividend income, not wages and salary or pension income. Any person age 65+ is tax-exempt if total annual income, from any and all sources, is $33,000 or less, or $59,000 or less for joint filers. An exemption of $1,250 ($2,500 if MFJ) is allowed against total taxable interest.

UTAH: Taxpayers age 65+ may be entitled to a retirement credit of up to $450 ($900 MFJ). Taxpayers under age 65, born before January 1, 1953, and with eligible retirement income may qualify for a credit up to 6% of eligible retirement income with a cap of $288.

VERMONT: RR is exempt.

VIRGINIA: Taxpayers age 65+ whose birthdate is on or before January 1, 1939, may claim an age deduction of $12,000 (available for each person or spouse if MFJ). If birthdate is on or between January 2, 1939, and January 1, 1949, the $12,000 age deduction is reduced by $1 for every $1 that adjusted federal AGI exceeds $50,000 (single) or $75,000 (MFJ, MFS). SS and Tier I RR benefits are exempt. Additional personal exemption of $800 if age 65+ or blind. Long-term care premiums are eligible for deduction if not claimed as an itemized deduction on federal return and if not used as the basis of the Virginia Long-Term Care Insurance Credit.

WEST VIRGINIA: $2,000 of military, federal retirement and state pensions is exempt. Additional exemption for military pension income up to $20,000. RR is exempt. Taxpayers age 65+ or surviving spouses may exclude the first $8,000 each of any remaining non-exempt income.

WISCONSIN: Federal civil service retirement payments are exempt from state income tax if: 1) individual retired from the system before January 1, 1964; 2) individual was a member of the system as of December 31, 1963, retiring at a later date and the payments received are from an account established before 1964; or 3) individual is receiving payments from the system as a beneficiary (survivor) of an individual who met condition 1 or 2. If age 65+, may exempt up to $5,000 of retirement income if federal AGI is less than $15,000 or $30,000 (MFJ). Additional personal exemption of $250 if age 65+. SS and RR benefits are exempt. Military retirement pay and retirement pay related to service with the Coast Guard, the commissioned corps of the National Oceanic and Atmospheric Administration or the commissioned corps of the Public Health Service are exempt. Long-term care insurance premiums may be exempt (exceptions exist to this general rule).

State Sales Taxes | With Average Combined City and County Rates

ALABAMA*	4.0	8.48%
ALASKA	0.0	1.69
ARIZONA*†	5.6	7.15
ARKANSAS* [1]	6.5	9.18
CALIFORNIA*†	7.5	8.41
COLORADO*†	2.9	7.39
CONNECTICUT*†	6.35	6.35
DELAWARE [2]	0.0	0.0
DIST. OF COL.*†	5.75	5.75
FLORIDA*†^	6.0	6.62
GEORGIA*†	4.0	6.98
HAWAII* [3]	4.0	4.35
IDAHO*	6.0	6.78
ILLINOIS [4]	6.25	8.13
INDIANA*†	7.0	7.0
IOWA*†	6.0	6.78
KANSAS*	6.15	8.13
KENTUCKY*†	6.0	6.0%
LOUISIANA*†	4.0	8.89
MAINE*†	5.5	5.5
MARYLAND*†^	6.0	6.0
MASSACHUSETTS*†	6.25	6.25
MICHIGAN*†	6.0	6.0
MINNESOTA*†^	6.875	7.18
MISSISSIPPI*	7.0	7.0
MISSOURI* [5]	4.225	7.51
MONTANA	0.0	0.0
NEBRASKA*†	5.5	6.79
NEVADA*†	6.85	7.93
NEW HAMPSHIRE	0.0	0.0
NEW JERSEY*†^	7.0	6.97
NEW MEXICO*† [6]	5.125	7.26
NEW YORK*†^	4.0	8.48
N. CAROLINA*	4.75	6.9
N. DAKOTA*†	5.0	6.6%
OHIO*†	5.75	6.8
OKLAHOMA*	4.5	8.72
OREGON	0.0	0.0
PENNSYLVANIA*†^	6.0	6.34
RHODE ISLAND*†^	7.0	7.0
S. CAROLINA*†	6.0	7.19
S. DAKOTA*	4.0	5.83
TENNESSEE* [7]	7.0	9.44
TEXAS*†^	6.25	8.15
UTAH* [8]	5.95	6.68
VERMONT*†^	6.0	6.14
VIRGINIA*^ [9]	5.3	5.62
WASHINGTON*†	6.5	8.87
WEST VIRGINIA*†	6.0	6.04
WISCONSIN*†	5.0	5.43
WYOMING*†	4.0	6.04

KEY:
* Prescription drugs are exempt
† Food is exempt
^ Nonprescription drugs are exempt

Additional exemptions and varied rates for particular sales may apply.

[1] Arkansas: Taxes food at 1.5%.

[2] Delaware: Imposes a gross receipts tax on the seller of goods (tangible or otherwise) ranging from 0.1037% to 2.0736%.

[3] Hawaii: Does not technically have a a sales tax but imposes a general excise tax of 4% of the gross receipts of most businesses.

[4] Illinois: Taxes qualifying food, prescription and nonprescription drugs at 1%.

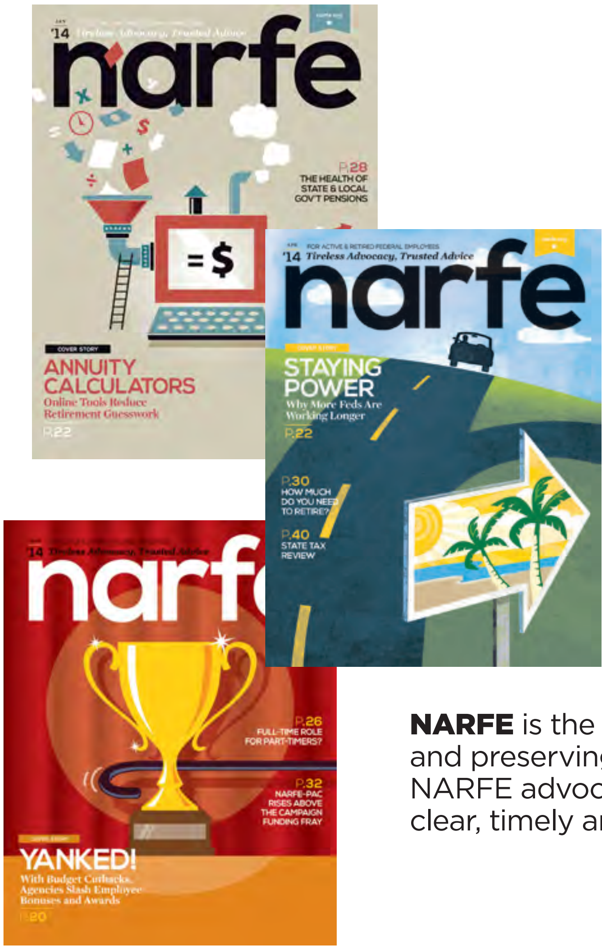
[5] Missouri: Taxes food at 1.225%.

[6] New Mexico: Does not have a sales tax but imposes a gross receipts tax instead, which has a similar effect, on persons engaged in business in New Mexico. In almost every case, the tax is passed to the consumer, either separately stated or as a part of the selling price. Rate varies within the state from 5.125%-8.8675%. Deductions are available, including for prescription drugs and qualifying food sales.

[7] Tennessee: Taxes food at 5.0%.

[8] Utah: Includes a 1.25% tax levied by local governments. Taxes food at a state rate of 1.75% with local additions of up to 3%.

[9] Virginia: Includes statewide local tax of 1%. Taxes food for home consumption at 2.5%, which includes statewide local tax of 1%. There is an additional 0.7% state tax imposed in the localities that make up Northern Virginia and Hampton Roads.



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