

Weigh Taxes When Picking a State for Retirement

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When it comes to choosing the best state in which to retire, some people look beyond traditional needs like nice weather and recreational opportunities.

In some cases, the deciding factors are taxes and staying close to family and friends, financial advisers say. For some clients, that means retiring to a neighboring state.

A handful of states like Illinois, Mississippi and Pennsylvania don't tax income from pensions, IRAs and other retirement accounts. Some 26 other states do tax some retirement income but are known from having no sales tax and low property taxes.

"We often talk to our clients and in seminars about getting out of Maryland which is a high cost-of-living and high-tax state for retirees," said Andrew Tignanelli, president of The Financial Consulate Inc. in Hunt Valley, Md., which manages around \$275 million.

Mr. Tignanelli also helps clients in other nearby states, including New Jersey, find low-tax states to retire.

In fact, he is currently working with a New Jersey doctor who plans to retire with his wife to be near family in Hershey, Pa. The couple picked the state because retirement income is tax-free and their family is close by.

During discussions with clients about retiring outside of Maryland, the adviser said he highly recommends two state with low taxes: Neighboring Delaware and sort-of-near Tennessee.

Delaware does tax retirement income but exempts a portion of it while having no sales tax and very low property taxes, and Tennessee imposes income taxes only on dividends and interest, Mr. Tignanelli noted.

Meanwhile, advisers on the West Coast point to Nevada and Washington state as popular places to retire.

Meredith H. Schneider, an adviser in Redwood Shores, Calif., who manages around \$50 million, is working with a couple now moving from California to Washington state, partly because the state has no income tax. Before the two sold their house in California, she helped them research "what retirement would look like in various states."

Retirees also like Nevada partly because it has no income tax, said Christopher Jones, who built his advisory firm, Sparrow Wealth Management, in Allentown, Pa., and moved it to Las Vegas two years ago. Mr. Jones, whose firm manages about \$37 million, said he has helped about 70% of his clients retire.

The map of states' retirement tax regimes is complicated, and in flux. As some states raise tax exemptions on retirement income, others such as Kentucky have clawed back. Alaska, Florida, South Dakota, Texas and Wyoming don't tax personal or retirement income. New Hampshire, like Tennessee, imposes income taxes only on dividends and interest.

"Every state has a slightly different nuance and understanding the tax regime is even hard for financial advisers," said Ken Weingarten, an adviser in Lawrenceville, N.J., who manages around \$35 million.

To help a client with his retirement plan, advisers look at potential tax hits well in advance of a move to another state.

Mike Maglio, a partner at advisory firm Brinton Eaton in Madison, N.J., is doing that now for one New Jersey client – the senior partner at a law firm who may move to a Philadelphia suburb in a year or two.

"We're able to model estate and income taxes and lay it out to say, 'here's what the costs will be,'" said Mr. Maglio, whose firm manages around \$750 million.