Castling
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Helping You Secure Your Future™

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Fall 2013 Newsletter:

Economic Recovery Slowest Since the Great Depression? Psst...It's Actually as Bad as the Depression!

A lot of what we would call “political posturing/spin doctoring” has replaced simple economic analysis in the news media, nowadays. However, we are not going to make this article about politics, because that would miss the central point.

Most everyone would agree with the statement that the current economic recovery seems quite slow, judging by prior business cycles. But a certain strain of conventional wisdom is making the further claim: “*Well, we just went through the worst recession since the Great Depression, so that's why we're seeing the slowest recovery since the Great Depression.*”

Is this really the case? We wanted to perform some basic analysis to put this to the test. During this past Summer, the government agency (BEA: Bureau of Economic Analysis) responsible for calculating the fundamental measure of economic output, Gross Domestic Product (GDP), recently completed major revisions to their numbers, going back at least as far as 1930. That year is considered to be the first full year of the Great Depression.

By contrast, the BEA called the Great Recession of a few years ago as having started in December 2007 and ending in June, 2009. So if we label 2008 as the first full year of recession with no significant drop off preceding it, we would be comparing with 1930.

The Great Depression lasted a long time. Most people would correctly point out that economic recovery was not achieved during the 1930s and it wasn't until World War II, that it ended. We would take issue with this because the economy of the war years was based on command and control. It wasn't until well after WWII, that prosperity returned. And in a big way.

So the idea of recovery means to bounce back high and strong enough, such that the original downturn has been compensated for. In other words, the definition of recovery is “to recover”. Oops, bad definition.

How about a football analogy, now that the season is in full swing? If my team is trailing your team by two touchdowns at halftime, can I claim that we recovered in the second half, if we merely played even with your team? Anyway, we still lost by two touchdowns.

In the economy, we need to see above trend line growth of GDP (trend would be about 3%), in order to get back on the trend line. This has not yet occurred.

To be sure, we have had an economic expansion since July, 2009. But we have not made up for lost ground.

The conventional answer is that the nature of our financial crisis means that the recovery would necessarily be slower. This is a difficult argument to prove. The evidence supports the idea that the deeper the recession, the sharper the recovery.

So what about during the Great Depression? The first economic contraction lasted four long years, from 1930 through 1933. Did you know that the following year, 1934, saw growth spike back up by +10.8%?

Our analysis simply took the actual GDP numbers from the BEA (most recent recalculations) from 1930-1937[1]. Why stop at 1937? Well, there was a recession in 1938 and we wanted to capture the contraction/expansion of the Great Depression and compare it to the contraction/expansion of the Great Recession. The comparable years are 2008-2012/2013. While we do not know the final outcome for 2013, we still see the economy growing below trend.

<u>To our surprise and astonishment, the actual annualized GDP growth from 1930-1937 (+0.66%) was higher than during 2008-2012 (+0.60%)</u>. Viewed in that narrow light alone, the Great Recession has been as bad as the Great Depression.

The six year period 2008-2013 should look a little stronger (+0.98%).

How could the Depression era economic numbers not look substantially worse, in aggregate, than current numbers? First of all, 1934-1936 posted some truly robust GDP numbers: 10.8%, 8.9% and 12.9%. The overall eight year number of +0.66% was still below the US economy's 3% long term trend line, proving that there was no recovery.

This is still the case today. <u>Without some time period of 2008-20XX showing annualized GDP growth of +3%, there is no recovery. If we sustain +2.5% GDP growth annually between now and eternity, there would still be NO recovery. This is not a political statement, just the sad reality</u>.

We all know that Depression years were much, much worse than what we have recently gone through. But this does shine a spotlight on the weak growth we are experiencing now. There has only been one quarter of GDP growth beyond 4% (2011 Q4), even with all the massive stimulus the Federal government has thrown at the economy and the massive quantitative easing (QE) the Federal Reserve has engaged in, ballooning the money supply.

It has worked, but to such a poor extent, that the recent discussion about “tapering” QE3 has sent financial markets into a fit, reminding us of an addict anticipating withdrawal.

This economic cycle, just like all the rest, will come to an end at some point and we will have another recession. It is inevitable. We are not sure if this will be in one year or five. But at some point, it will happen. Moreover, the next contraction, as in 1938, will most probably arrive at a time when recovery from the previous downturn has not yet been achieved.

So, it's time to expect turbulence ahead. Don't panic, but be prepared. Is your financial life as fine tuned as it could be? Are your debt levels under control and progressively declining? Do you have a six month emergency fund, assuming you are still employed and even longer (hopefully much longer) if you are retired? Are you making steady progress toward your financial goals? Do you even have clear and specific financial goals defined? Do you know your willingness, ability and need to take risk?

We don't pretend to predict events, but we know that no one else can. So we don't waste our time in areas we cannot control. But we try to understand the nature of a problem and where risk can be found. We think the recovery after the next recession will be much more robust than this one. But getting from here to there will be a very bumpy road. So wear your seat belt and find out who's responsible for providing your financial navigation.

Comparing Current Economy to Great Depression

Source of Data: BEA Bureau of Economic Analysis at: http://www.bea.gov

Year	GDP % Change	1 + GDP
1930	-8.5	0.915
1931	-6.4	0.936
1932	-12.9	0.871
1933	-1.3	0.987
1934	10.8	1.108
1935	8.9	1.089
1936	12.9	1.129
1937	5.1	1.051
1938	-3.3	0.967
1939	8.0	1.08

1930 – 1937	1.0541357653	
8th Root:	1.0066119193	
-1, expressed as %	0.66%	<<== *Annualized GDP change over the eight year period, 1930-1937*

Year / Quarter	GDP % Change	1 + GDP	
2007 Q1	0.3	1.003	
2007 Q2	3.1	1.031	
2007 Q3	2.7	1.027	
2007 Q4	1.5	1.015	
2008 Q1	-2.7	0.973	
2008 Q2	2.0	1.02	
2008 Q3	-2.0	0.98	
2008 Q4	-8.3	0.917	
2009 Q1	-5.4	0.946	
2009 Q2	-0.4	0.996	
2009 Q3	1.3	1.013	
2009 Q4	3.9	1.039	
2010 Q1	1.6	1.016	
2010 Q2	3.9	1.039	
2010 Q3	2.8	1.028	
2010 Q4	2.8	1.028	
2011 Q1	-1.3	0.987	
2011 Q2	3.2	1.032	
2011 Q3	1.4	1.014	
2011 Q4	4.9	1.049	
2012 Q1	3.7	1.037	
2012 Q2	1.2	1.012	
2012 Q3	2.8	1.028	
2012 Q4	0.1	1.001	
2013 Q1	1.1	1.011	
2013 Q2	2.5	1.025	
2013 Q3	2.8	1.028	
2013 Q4	2.8	1.028	<<== Forecast using extrapolation

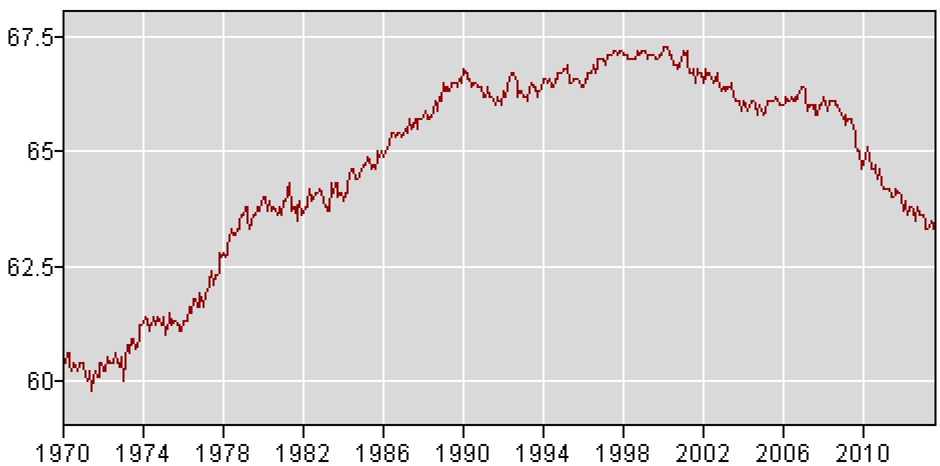
Year	GDP % Change	1 + GDP	
2007	1.9	1.019	
2008	-2.8	0.972	
2009	-0.2	0.998	
2010	2.8	1.028	
2011	2.0	1.020	
2012	1.9	1.019	
2013	2.3	1.023	<<== Estimated

2008 – 2013	1.0603746706	
6th Root:	1.0098182708	
-1, expressed as %	0.98%	*<<== Annualized GDP change over the six year period, 2008-2013*
2008 – 2012	1.0365590137	
5th Root:	1.0060023736	
-1, expressed as %	0.60%	*<<== Annualized GDP change over the five year period, 2008-2012*

The Accidental Retiree or, Surprise! You're Retired!

When doing research, we seek data from more than one source, in order to confirm a trend or support a working assumption or idea. A while ago, while looking at different issues, we came across something that seemed at odds with what is currently being explained in the mainstream media.

Demographics can be deceiving. The conventional wisdom is that the severe drop in the Labor Force Participation Rate (shown below) to the current 62.8%[2] is due to the baby boom generation retiring. The last time this statistic had that value was March, 1978. The baby boom generation is measured as those born from 1946 through 1964. Let's assume a midpoint of about 1955. This means that a typical baby boomer was about 23 years of age in 1978. Labor force participation was generally on the rise during the 70's, as more women joined the ranks of the employed.



The Labor Force Participation Rate peaked at 67.3% in January, 2000. We have long since held that Y2K was the catalyst behind the 1990's bubble. The rate first hit 67% in late 1996 and varied only slightly, until dropping below the peak, by mid 2000.

The first boomer (born in 1946), assuming he was to retire as soon as he could claim his Social Security benefits, would not have been able to do so, until 2008. Even that person born in 1955 is only turning 58, this year. <u>The raw data do not show that the decrease in participation is only or mostly due to demographic factors. That is, unless this same age group is very confident of its financial ability to freely leave the workforce</u>.

So take this job and shove it? Hardly. In fact, <u>overall labor force participation has been trending downward since 2000, well before demographics were supposed to kick in</u>.

Let's drill down deeper.

The nonprofit American Institute for Economic Research (AIER), one of our favorite sources, recently published a chart (based on data from the Bureau of Labor Statistics), which shows the labor force participation rate among those in the 55-64 age group (all of whom are considered baby boomers) to be relatively stable over the last six years and which shows a significant upward trend for the past twenty five years, moving from under 55% to around 65%. The somewhat alarming side issue is the downward trend in participation among the very young (age 20-24) during this same period[3].

More evidence comes from the Employee Benefit Research Institute (EBRI). This nonprofit organization studies benefit programs and routinely surveys both currently employed workers, as well as retirees, on their views of retirement. Their 2013 Retirement Confidence Survey tells a different story from what the mainstream media describe as the reason behind falling labor force participation.

Only 23% of current workers expect to retire before age 65. But 69% of retirees actually retired before age 65[4]. Yes, these are different sets of people, but coupled with the data we have shown above, we see that a relatively large proportion of older workers would like to continue in their jobs, but are not able to.

Money Magazine cited a 2012 MetLife survey of 65 year olds and found that most had at least partially retired. But this happened often unexpectedly, due to job loss or health problems[5].

Demographic factors do indicate that some baby boomers are retiring. But for many, this is not of their choosing. The expectation that full time, career oriented employment will still be available when a person turns 65, is no longer a "make it so" / "get-r-done" reality. And while the general population is unquestionably living longer, the quality of health in their lives is not necessarily robust enough to allow all to remain gainfully employed.

Somewhat paradoxically, some form of employment will need to be part of the retirement mix for many in this age group.

Without proper financial planning and the inclusion of sufficient resources and time, income during retirement will need to be fashioned from a combination of sources. It may be rather haphazardly put together and many will effectively be transitioning into and out of the workforce over time.

We conclude with our own list of observations of a typical 65 year old from today and 30 years ago. Which one better describes your own situation?

In 1983, the typical 65 year old man or woman:

1. Was already at full retirement age for Social Security.
2. Was already retired or about to retire (by choice) because they were financially able to do so.
3. Would receive 100% of their Social Security benefits free of Federal income tax.
4. Probably had a defined benefit pension that replaced a more than trivial part of their pre-retirement income.
5. Owned their home outright, without any mortgage.
6. Had no consumer/credit card debt.
7. Was not supporting/helping out their adult children in any meaningful way.
8. Had already inherited from their own parents/their parents were already deceased.
9. Either did not own an IRA, or did not have significant funds in an IRA, due to lack of time with which to accumulate individual retirement account assets (IRAs were established in 1974).

In 2013, the typical 65 year old man or woman:

1. Is not yet at full retirement age for Social Security (which is now 66).
2. May be retired but not strictly by choice, or would move back into the labor force if the right employment was available.
3. May owe Federal income tax on up to 85% of their Social Security benefits.
4. Probably does not have a defined benefit pension, or if they do, it replaces only a small part of their pre-retirement income.
5. May still have a mortgage on their home.
6. May still have consumer/credit card debt.
7. May be supporting/helping out their adult children in some meaningful way.
8. If one or both parents are still alive, they may be helping them in some way financially.
9. Probably owns one or more retirement accounts, but these may be inadequately funded to provide for their life expectancy

How could anyone still not believe in the importance of financial planning?

Castling Principle at Work During the Financial Crisis and Beyond

We named our firm ***Castling Financial Planning, Ltd.*** years after observing a certain phenomena and naming it "castling", for lack of a better description. Periodically, we like to give real life examples of how this principle works and why we consider it a differentiating factor in the way we approach financial and investment advising.

First off, let's review. You may have heard the term ***Castling*** as a move in the game of chess. But here is our definition, when applied to personal finance:

The simultaneous use of two fundamentally different things, in such a way that you achieve a result that could not have been achieved using just the one or the other.

Hogwash! Bah-humbug! Get to the bloody point, old man, you say. Or maybe worse. Instead of feeling nervous or offended, I simply look you straight in the eye and calmly assure you that you already know what castling really is and you've known it for a good part of your life, even if you've never played chess.

For those of you who do play chess (probably much better than I ever did), recall that while all the moves in chess involve moving just one of your pieces at a time, castling (aka "to castle") involves moving both your king and rook simultaneously. While we don't know why this was first allowed, we do know that the purpose of this move is to safeguard the king and concurrently make the rook more active.

The perceptive reader may liken this to "killing two birds with one stone" or synergy. But these terms oftentimes descend into being cliches. A corporation may acquire another corporation, citing "synergies" as the reason. But this may really mean that they are in the *same* or similar business and the acquisition creates economies of scale. This usually results in people losing their employment.

That's not what we mean by castling. We are referring to the use of two fundamentally different things, ideas, assets, concepts, etc., that when used together in some way, lead to a more powerful result.

Here is an example we think everyone will understand: *diet and exercise*. When we say this, are we implying two sets of disconnected activities? Should I go on a diet for the next six months, then stop and start exercising, right? Of course not.

The first place where I noticed the principle at work was in highlighting the distinction between saving and investing. Some financial professionals make the mistake of not seeing the difference between the two and also in not noticing how they can be used together, to accomplish something where using only investing would not work.

The purpose of this article is to demonstrate the value of a robust savings portfolio at the outset of retirement. Savings plus *time* can save both your investment portfolio as well as your retirement. We show a realistic example of a person who picks a rather bad time to retire: January 1, 2008. Who knew? This person put 100% of his $1,000,000 investment portfolio into a single fund, the Vanguard 500 Index. Obviously, this person is not and never has been, a client of ***CastlingFP***. To make matters worse, he maintains that he needs $50,000 a year to live on in retirement. So this means a 5% initial withdrawal rate, which draws the ire of most financial advisors. Lastly, he needs a 3% annual cost of living adjustment. This results in a $51,500 withdrawal in year two and so on.

To make things more realistic, we computed this using quarterly withdrawals. All return data came from the Vanguard Advisor Website[6].

We present two scenarios. In the first, there is no castling principle at work. Withdrawals of the preset amounts are taken at the outset of each quarter, simulating how in real life, a person would take distributions to live on. There is no attempt at moderating the pace of withdrawals, even while watching the account get depleted. We see the double whammy of investment losses and distributions to live on in retirement, happening simultaneously.

At some point, the bear market bottoms out and becomes a bull market. But could this be too late for our retiree? In less than 6 years (2008-2013), with a combination of losses and withdrawals, the balance as of the end of this past October is: $834,971. So this becomes our baseline.

In scenario two, we apply the ***Castling Principle***. We do not start with any more money. In fact, the investment portfolio is set at $900,000, in order to free up $100,000 as the initial savings portfolio amount.

The definition of a savings portfolio is a set of one or more accounts that are liquid (easily convertible to cash with negligible or no loss to principal) and which are not vulnerable to the various market risks that an investment portfolio is subjected to: stock, bond, real estate, commodity, etc.

In the long run, the savings portfolio is definitely vulnerable to the ravages of inflation. The exact proportions to use between investment and savings should be based on analysis. There is no one-size-fits-all answer. We recommend that you learn exactly what you must do or seek professional help. This type of analysis is something we are experienced in (since we came up with the term ***Castling***, to refer to it).

In our second scenario, we did not earn any interest in the savings portfolio. In reality, this may be a good assumption for now, since interest rates on savings products are so low.

Finally, we apply a set of loose rules. In our case, it was to determine what the next withdrawal from the savings portfolio should be, at the outset of the next quarter. In other words, we would continue to pull strictly from the investment portfolio to live on, as long as it performed as expected or reasonably close. We assigned an 8% expected annual return, or 2% per quarter, to simplify the example.

To start things off at the beginning of retirement in 2008 Quarter 1, we pulled one fourth of the annual income need ($12,500) from the investment portfolio.

At the end of the first quarter, we assessed with full knowledge, the answers to these two simple questions:

1. How well has my investment portfolio performed in the just completed quarter, as compared to my expectations?
2. How well has my investment portfolio performed cumulatively, since the start of my retirement, as compared with my expectations?

Please keep in mind that we do not assume any knowledge of what will happen going forward. We simply assess based upon fully known, past events.

Well, 2008 Q1 was a whopper of a bad one, with a 9.47% loss. So we jump on this, by taking half of the upcoming withdrawal from the savings portfolio and the other half from the investment account.

This leads us to define all the actions to take. Performing some analysis based upon an individual client's willingness, ability and need to take risk, is vital. This is not meant to be a cookie cutter solution, so the actions should be customized to fit the person's needs.

Here are the simple actions we defined for this second scenario:

1. Take the entire withdrawal from the investment portfolio (same as scenario one).
2. Take half from investments and the other half from savings.
3. Take the entire withdrawal from the savings portfolio.

4. Take 1.5 times the needed amount from the investment portfolio and use part to actually re-pay savings, to build it back up. This action would only be taken if there had been prior withdrawals from savings and the current savings portfolio amount is less than the starting amount and the investment return during the prior period was above the expected return.

Other than the last action, everything else should appear to be straightforward.

Does all this fancy footwork help? Please keep in mind that the opportunity cost of having $100,000 in savings is that it is not in the investment portfolio and not able to achieve its long run expected return. In this scenario, the combined investment and savings portfolios sum to $874,908, or $39,937 more than the first scenario.

This was almost a 5% improvement. While not earth shattering, it did allow the retiree to maintain the exact same standard of living over the same time period, while providing some small protection to the investment portfolio, all with zero added expense and just slightly more management on the part of the retiree.

Below, we present some of the detailed calculations from the spreadsheet. Please contact us for more information on how we can apply the ***Castling*** principle to your financial situation.

The Castling Principle Using Vanguard 500 Index

Total Portfolio Amount:	$1,000,000
Gross Pre-Tax Expenses:	$50,000
Expected Rate of Return:	8.00%
Quarterly Expected Return:	2.00%
Cumul. Lower Threshold %:	90%
Per Quarter Threshold %:	-5%
Initial Withdrawal %:	5%
Initial Annual Withdrawal:	$50,000
Initial Quarterly Withdrawal:	$12,500
Cost of Living Adjustment:	3%

Scenario 1:	
Investment Portfolio:	$1,000,000
Invested in:	Vanguard 500 Index (VFINX)
Savings Portfolio:	$0

Year	Quarter	Quarterly Return	iv	Beg. Balance	Beg. Savings	Invest. Withdrawal	Savings Withdrawal	Total	Invest. Return	Invest. Balance	Savings Balance
2008	1st	-9.47%	##	$1,000,000	$0	$12,500	$0	$12,500	-$93,516	$893,984	$0
2008	2nd	-2.75%	##	$893,984	$0	$12,500	$0	$12,500	-$24,241	$857,243	$0
2008	3rd	-8.36%	##	$857,243	$0	$12,500	$0	$12,500	-$70,621	$774,122	$0
2008	4th	-21.94%	##	$774,122	$0	$12,500	$0	$12,500	-$167,100	$594,522	$0
2009	1st	-11.00%	##	$594,522	$0	$12,875	$0	$12,875	-$63,981	$517,666	$0
2009	2nd	15.97%	##	$517,666	$0	$12,875	$0	$12,875	$80,615	$585,406	$0
2009	3rd	15.59%	##	$585,406	$0	$12,875	$0	$12,875	$89,258	$661,789	$0
2009	4th	6.03%	##	$661,789	$0	$12,875	$0	$12,875	$39,130	$688,044	$0
2010	1st	5.35%	##	$688,044	$0	$13,261	$0	$13,261	$36,101	$710,883	$0
2010	2nd	-11.45%	##	$710,883	$0	$13,261	$0	$13,261	-$79,878	$617,744	$0
2010	3rd	11.26%	##	$617,744	$0	$13,261	$0	$13,261	$68,065	$672,548	$0
2010	4th	10.71%	##	$672,548	$0	$13,261	$0	$13,261	$70,610	$729,896	$0
2011	1st	5.88%	##	$729,896	$0	$13,659	$0	$13,659	$42,115	$758,352	$0
2011	2nd	0.07%	##	$758,352	$0	$13,659	$0	$13,659	$521	$745,214	$0
2011	3rd	-13.90%	##	$745,214	$0	$13,659	$0	$13,659	-$101,686	$629,869	$0
2011	4th	11.78%	##	$629,869	$0	$13,659	$0	$13,659	$72,589	$688,799	$0
2012	1st	12.54%	##	$688,799	$0	$14,069	$0	$14,069	$84,611	$759,341	$0
2012	2nd	-2.78%	##	$759,341	$0	$14,069	$0	$14,069	-$20,719	$724,554	$0
2012	3rd	6.31%	##	$724,554	$0	$14,069	$0	$14,069	$44,832	$755,317	$0
2012	4th	-0.42%	##	$755,317	$0	$14,069	$0	$14,069	-$3,113	$738,135	$0
2013	1st	10.57%	##	$738,135	$0	$14,491	$0	$14,491	$76,489	$800,133	$0
2013	2nd	2.87%	##	$800,133	$0	$14,491	$0	$14,491	$22,548	$808,190	$0
2013	3rd	5.20%	##	$808,190	$0	$14,491	$0	$14,491	$41,272	$834,971	$0
								Total Ending Portfolio Value:		$834,971	

The Castling Principle Using Vanguard 500 Index

Scenario 2:	
Investment Portfolio:	$900,000
Invested in:	Vanguard 500 Index (VFINX)
Savings Portfolio:	$100,000

Year	Quarter	Quarterly Return	iv	Beg. Balance	Beg. Savings	Invest. Withdrawal	Savings Withdrawal	Total	Invest. Return	Invest. Balance	Savings Balance
2008	1st	-9.47%	###	$900,000	$100,000	$12,500	$0	$12,500	-$84,046	$803,454	$100,000
2008	2nd	-2.75%	###	$803,454	$100,000	$6,250	$6,250	$12,500	-$21,923	$775,281	$93,750
2008	3rd	-8.36%	###	$775,281	$93,750	$6,250	$6,250	$12,500	-$64,291	$704,740	$87,500
2008	4th	-21.94%	###	$704,740	$87,500	$0	$12,500	$12,500	-$154,620	$550,120	$75,000
2009	1st	-11.00%	###	$550,120	$75,000	$0	$12,875	$12,875	-$60,513	$489,607	$62,125
2009	2nd	15.97%	###	$489,607	$62,125	$0	$12,875	$12,875	$78,190	$567,797	$49,250
2009	3rd	15.59%	###	$567,797	$49,250	$6,437	$6,438	$12,875	$87,516	$648,876	$42,812
2009	4th	6.03%	###	$648,876	$42,812	$12,875	$0	$12,875	$38,351	$674,352	$42,812
2010	1st	5.35%	###	$674,352	$42,812	$6,630	$6,631	$13,261	$35,723	$703,444	$36,181
2010	2nd	-11.45%	###	$703,444	$36,181	$6,630	$6,631	$13,261	-$79,785	$617,029	$29,550
2010	3rd	11.26%	###	$617,029	$29,550	$6,630	$6,631	$13,261	$68,731	$679,130	$22,919
2010	4th	10.71%	###	$679,130	$22,919	$6,630	$6,631	$13,261	$72,025	$744,524	$16,288
2011	1st	5.88%	###	$744,524	$16,288	$13,659	$0	$13,659	$42,975	$773,840	$16,288
2011	2nd	0.07%	###	$773,840	$16,288	$6,829	$6,830	$13,659	$537	$767,548	$9,458
2011	3rd	-13.90%	###	$767,548	$9,458	$13,659	$0	$13,659	-$104,791	$649,098	$9,458
2011	4th	11.78%	###	$649,098	$9,458	$6,829	$6,830	$13,659	$75,659	$717,928	$2,628
2012	1st	12.54%	###	$717,928	$2,628	$21,104	-$7,035	$14,069	$87,382	$784,206	$9,663
2012	2nd	-2.78%	###	$784,206	$9,663	$21,104	-$7,035	$14,069	-$21,214	$741,888	$16,698
2012	3rd	6.31%	###	$741,888	$16,698	$7,034	$7,035	$14,069	$46,369	$781,224	$9,663
2012	4th	-0.42%	###	$781,224	$9,663	$14,069	$0	$14,069	-$3,222	$763,933	$9,663
2013	1st	10.57%	###	$763,933	$9,663	$14,491	$0	$14,491	$79,216	$828,658	$9,663
2013	2nd	2.87%	###	$828,658	$9,663	$21,737	-$7,246	$14,491	$23,159	$830,079	$16,909
2013	3rd	5.20%	###	$830,079	$16,909	$14,491	$0	$14,491	$42,411	$857,999	$16,909
						Total Savings Withdrawal	*$83,091*			*Zero Check: $0*	

Total Ending Portfolio Value:	$874,908
Improvement Versus Scenario 1:	$39,937
Percentage Improvement Versus Scenario 1:	4.78%

Forget Carbon Footprint! Minimize Your Income Footprint in Retirement

Much has been said and written about the environment and whether, and by how much, to minimize one's own impact on it. We'll leave this argument to those who have the necessary background in science. But this is similar to the basic notion of being careful not to waste, because of the impact it has on everyone and everything else, as well as the effect of depleting one's own resources.

A similar argument can be made on the personal finance side. We argue that for the average retiree, "minimizing one's income footprint" has more impact than almost anything else they could do regarding the environment.

Why and how? And especially, why should you care if you are not yet retired?

During our working lives, we rarely get to control the level of income we earn and the timing of when we receive it. If your boss is handing out bonuses in December, it is probably not feasible to expect that your employer's payroll department can make an exception for you and give you your check in January, just so you avoid paying income tax on it this year (Let's say you were otherwise expecting huge deductions next year). For most of us, we depend on receiving most every dollar we earn, as soon as we earn it.

We may defer compensation by enrolling in a qualified retirement plan, such as a 401(k), and making pretax contributions. We may also enroll or add into Health Savings Accounts or Flexible Spending Accounts. A contribution to a traditional IRA may be deductible for some of us.

For most of us, we need the remaining income to pay our bills and satisfy our family obligations. This is understandable.

But the conventional wisdom in financial planning is that you may need as much income in retirement as during your working years. Some claim it would be even more than 100%. Many of those who insist it will be less, are reluctant to set the value at less than 80% of pre-retirement income.

We think that these rules of thumb are counterproductive and actually a bit harmful. Nothing substitutes for doing real analysis. Based upon our experience in working with retired clients and those approaching retirement, we see a different picture, one offering both challenges as well as opportunities.

In order to make this article as realistic as possible, we put together two budgets as well as two sets of income tax returns, for a fictional couple: Opti and Maxi Miser. Their data is not taken from specific clients of ***Castling Financial Planning, Ltd***. However, the concepts presented are based upon situations we deal with every day. Please keep in mind that ***CastlingFP*** is not in the business of providing tax advice. We encourage you to speak with your tax professional about your specific situation. However, we do get involved in income tax planning, as it affects overall financial planning.

We present two scenarios. In the first, Opti and Maxi Miser, both age 64, are preparing for retirement. Imagine the year is 2012 and they expect to retire on December 31st. I suppose they planned their New Year's Eve Celebration to be extra special. The Misers are frugal to be sure, but they are not "misers".

Their combined gross income is $100,000, each having earned the same amount. Below, we present their pre-retirement budget in the column labeled "Current", which is used in this first scenario. This is the same Budget Template we use in our practice and is one of the basic, yet highly effective tools we make available to our clients. Please let us know if you would like a copy of this Excel template.

The Misers have long since created an emergency fund and have beefed it up in preparation for retirement. So instead of channeling even more into the Savings bucket each month since bank interest rates are so low, they followed their adviser's recommendation and have been prepaying their mortgage. So the $1,600 monthly payment covers principal and interest, plus several hundred dollars of extra principal. In their case, the mortgage will be completely paid off with the December, 2012 payment. The reason is to start retirement without needing to generate the income (originating from a retirement account distribution) needed to keep paying the mortgage. Their final mortgage interest deduction in 2012 will be only $2,000.

This budget example demonstrates the importance of starting with gross amounts and then including all income and employment taxes. Do not assume a given tax rate during your working years will repeat or even be similar, during retirement. We will demonstrate how effective tax rates can vary widely.

The Misers have been dutifully saving for retirement by each funding employer sponsored 401(k) plans at the rate of 10% of pay ($5,000 each). They have also managed to squeeze an additional $2,000 contribution each, into (deductible) traditional IRAs.

Reviewing the rest of their current budget, you may find areas where you agree with the Misers' spending and items that you feel they are neglecting, or others where they are overdoing it. Our purpose here is not to dwell on every line item, but to demonstrate that the process of budgeting is feasible for the average person and can lead to positive results. In the bottom right hand corner, we see that every dollar of their gross income has been spoken for, except for $1.33 per month. This simply means that income has been allocated to the expense items that make sense to them. Some of these categories can be renamed for those folks who have different family needs. In the end, a line item such as “Miscellaneous” should not be allocated a large amount. Please keep in mind that we are not expecting clients to actually track every penny spent.

This tool should provide a guide that comes close enough, without expecting slavish devotion to this task. Its importance becomes clearer as we move toward retirement. While budgets are useful for people in all stages of life, they are best suited for those nearing retirement. We have come to this realization by observing that those approaching retirement have clearer images of what their desired standard of living will be. Most often, it tends to mirror their standard of living in the year before they leave the workforce.

Expecting a 25 year old to describe what her desired standard of living in retirement will be, is asking the irrelevant. The young person needs to experience life, work, careers, families, disappointments, triumphs, commitments and then settle in on what that standard means to her. She has time for this image to evolve. In the meantime, better to budget in order to save for a far distant (and just vaguely defined) retirement and especially a nearer term (and more clearly envisioned) purchase, such as a new home.

Back to the Misers and the results of Scenario One. Hurray, they got a refund of $1,256 on their Federal return and $780 on their State of Illinois return! Actually, large income tax refunds only mean that you made an interest free loan to the government. If a special situation causes you to receive a surprise refund, that is great. But perennially large refunds indicate some level of mismanagement or fear. If tax withholding is adjusted to correct for this, it is advisable that the excess funds go straight into savings or investment accounts.

The Misers income tax bill is $9,544 Federal and $4,595 State. Recall that their gross income is $100,000. So their combined effective tax rate is 14.1%. This is pretty good for a couple with their level of earnings.

To make things interesting, imagine Scenario Two. It's still 2012. We reused the same year, so our income tax software would continue to work as programmed. Instead of being their last year of employment, the Misers enjoy their first full year of retirement, having both left their jobs at the same time!

Their goals are simple. Maintain the same standard of living as their last year of employment, but allow more money for entertainment, dining out, recreation, travel and their hobbies. In addition, they would still like to support their charities to the same extent, even though they are now retired. Lastly, they would like to keep helping their adult daughter, Mini (yes, it's corny).

Let's look at the second column on their budget, labeled “Retirement”. When we work with actual clients, we typically ask them to fill in the “Current” column and then we do our analysis to arrive at values for the “Retirement” column. Inflation factors are used to arrive at a cost of living adjustment (COLA) for each category. Please keep in mind that some line items are more highly valued by the client and will be ratcheted up considerably. Others will only get a COLA. One example are most utilities. The flexibility of such a template is that multiple, different inflation adjustments can be made if we are concerned that some line items, such as health care, will be rising faster than others.

For the Misers, since we are still imagining the year is 2012, we have purposefully not made any inflation adjustment. Please note the variable expense totals. The Misers are now allocating $3,200 monthly, instead of $2,815. This is a 13.7% increase due to their wants and dreams, not because of inflation. They have doubled their allocation to entertainment, dining out, recreation, travel and their hobbies, just as they had intended.

Now for the sobering news. Their employers offer them defined benefit pensions, but these are only worth $1,000 each per month.

Furthermore, the suggestion from their financial adviser was to <u>not sign up for Social Security benefits right away</u>. Full retirement age (FRA) for anyone born in 1943-1954 is 66 years (and 0 months to be precise). Nothing prevents them from retiring in 2012 at the age of 65 and not taking Social Security. At least nothing other than their own finances.

<u>Too many people apply for their Social Security benefits too early</u>. While there are valid reasons for claiming before FRA, some analysis should go into making this fateful decision. We will discuss this further in future issues of our newsletter.

While not claiming Social Security at this time, the Misers did sign up for Medicare, since they are both now 65 years of age. Their retirement budget shows a reduced amount under Medical insurance, since they have now switched to Medicare Supplement policies, instead of the comprehensive ones they had while they were working. Likewise, the smaller amount under “FICA” no longer tracks employment related taxes, but instead, holds the premiums for Medicare Parts B (doctor services) and D (prescriptions).

With the help of their financial adviser, they have been planning for retirement for a long time.

They budgeted not only for necessities, but also stressed their priorities. Auto/homeowners insurance and food are not any more expensive for them now that they are retired. A few of these items may even go down a bit in cost, but we did not visit that possibility.

The Misers do not have life, long term care or umbrella liability insurance. This may or may not be a red flag. They maintained term life insurance while their daughter, Mini, was growing up and later decided that their employer provided group coverage was all they were willing to pay for. Other than their home and retirement accounts, their level of assets was not in the million dollar range. So the $500K general liability coverage on their homeowners policy was thought sufficient, to keep them secure. By the way, qualified retirement plans, such as 401(k)s are protected from creditors by federal law. IRAs are usually protected in a similar way, by state law.

Long Term Care (LTC) insurance is an inherently uncertain area and this article is not meant to provide a blanket positive or negative commentary. It really depends upon finding a strong enough insurance company who will survive unscathed for decades. But one who can price risk accurately enough so that you do not pay too low a premium now, only to be surprised with a huge group level increase a decade from now (especially one that you simply cannot afford) . Of course, we haven't discussed the flexibility of benefits or what triggers them or how affordable the initial premiums are. Another discussion for another time. Here, suffice it to say that they took a pass on LTC.

Back to the Misers budget in retirement. There are plenty of zeros in the Fixed Monthly Expenses section, for line items which were very active while they were working. Let's review. By prepaying the mortgage on the home where they intend to live for an indeterminate length of time in retirement, they have freed themselves of the biggest single monthly expense of their lives. Since they have now retired, they are no longer making contributions to their 401(k)s and IRAs. Combined, these total $2,767. This amount is no longer being subtracted from their sources of income each month.

Looked at another way, this means that they can shrink their “income footprint”. Note the line item “Retirement Acct. Distributions” under the Monthly Income section. Our process involves <u>iteratively solving for the minimum value that still works with the rest of the budget. Please remember that this is how you “minimize your income footprint in retirement”. This value is more under your control at this time of your life, than it ever has been</u>.

It gets better still. Minimizing your income footprint results in minimizing your tax bill (almost always). The progressive nature of federal income tax rates means that the marginal (last) dollar earned gets taxed at the highest rate. Higher income levels may also result in reduced deductions and credits. Why would we want to expose more of our retirement accounts to income taxes than need be? We simply need to sustain our desired standard of living.

Therefore, our second set of income tax returns are most illustrative. The Misers report $55,320 in total income ($4,610 monthly budget times 12). Only $31,320 of this came from retirement accounts. They rolled over their 401(k) funds into IRAs after they left their employers. This is a decision that also requires analysis. We never recommend a standard answer such as always doing a rollover (but many conflicted advisers do).

At the Federal level, their income tax liability dropped to $4,354. In the State of Illinois, distributions from retirement accounts are currently not taxed. So the Misers wind up with no state income tax liability. (There is no guarantee that state law will always leave these distributions untaxed. However, if state politicians one day decide that this is a source of funds with which to shore up public sector pensions, it should then be obvious what type of wealth redistribution is taking place. This is a word to the wise. For those readers residing in Illinois or another state with similar laws: stay vigilant.)

While we discuss state taxes, this would be a good time to mention local taxes as well. The Misers do not have to worry about a local income tax jurisdiction (thank goodness). But other tax breaks could be locally based, depending on income level. This should be thoroughly researched.

For example, in Cook County Illinois, a "Senior Freeze Exemption" on property taxes is available to senior citizens aged 65 and older[7]. It freezes the equalized assessed value (EAV) of their principal residence. It is a critical component in calculating a property tax bill. EAV is itself calculated using the assessed valuation of a property (AV). Lowering this latter figure is the objective of filing a property tax appeal. Therefore, freezing EAV's should effectively eliminate the need to file (or pay someone to research and file) an appeal. Of course, property tax rates can still go up, meaning that tax bills could increase, anyway.

Currently posted information at the Cook County Assessor's Website describes the rules in effect for the current (2012 property tax) year. This Senior Freeze Exemption requires a maximum household income level of $55,000, in 2011.

The Misers do live in Cook County. In the first scenario, they were both 64 in 2012 and would not have qualified based on age. In the second scenario, they were both 65 in

2012, but would still not have qualified, due to their income level in 2011 (while they were still employed).

Looking ahead to the property taxes they will pay in 2014 (for property tax year 2013), their income level in 2012 will come into play. While we do not know the exact figure the county will use, we think it may remain at $55,000. Therefore, with a little planning, we would see the Misers attempt to hold their total income down to just below $55,000 in 2013. They may decide to do this by drawing a little more from their savings portfolio (which would be after tax), while cutting back slightly on their IRA withdrawal.

Back to the income tax bill. The final amount is $4,354. Their gross income is $55,320. This results in an effective tax rate of 7.9%. It has decreased from 14.1%. Not quite in half, but a very significant decrease.

Their standard of living did not drop at all. We could make a solid argument that their standard of living has actually improved, since they are now spending more on those aspects of their life that are important to them.

But it still gets better. By understanding and minimizing their retirement account withdrawals, they partially protect themselves from investment risk and market cycles. We have not focused on the size of their investment portfolio, nor what level of distribution can be considered "safe". You may be familiar with the "4% withdrawal rule". As with all rules of thumb, we are not big fans. No rule of thumb is a substitute for doing analysis, as long as you know what you're doing, or in getting help from someone who does. Our emphasis here is merely to demonstrate that regardless of the size of the distribution in retirement, a smaller one is better than a larger one, as long as your standard of living is maintained.

A smaller distribution will deplete your investment portfolio more slowly. More of the funds will stay invested longer, meaning a higher probability of achieving their long term rate of return. Planning for smaller distributions also has the effect of decreasing your required rate of return during retirement, thus reducing the level of risk that you need to take in your investments.

The Misers only needed to take $31,320 from their investments to maintain their standard of living for this first year of retirement. They definitely will need to adjust this going forward, due to inflation and the fact that their pension payouts are fixed. But when using their Budget Template, this task will be easy.

Lastly, what is the true bottom line for the Misers? The gross income in their first year of retirement is less than 56% of the gross income in their last year of employment. So much for rules of thumb. We have taken into account all spending categories they make use of and have demonstrated this with a complete budget. We maintained and enhanced their standard of living in their first year of retirement. We have shown their federal and state income tax returns for both their last year of employment and their first year of retirement. (Since this is a long article, we have excluded showing every form and schedule. Please contact us if you would like to get a copy of the entire set of tax returns.)

This is how you can minimize your income footprint in retirement. It takes analysis and that's how we can help. Unlike commission or asset based advisers, who either push products or pull assets, ***CastlingFP*** focuses entirely on analysis. Please remember that analysis is the only true source for all unbiased advice.

Monthly Income	Current	Retirement
Wages, salary, tips	$8,333.33	$0.00
Cash dividends	$0.00	$0.00
Interest received	$0.00	$0.00
Social Security income	$0.00	$0.00
Pension income	$0.00	$2,000.00
Rents, royalties	$0.00	$0.00
Retirement Acct. Distributions	$0.00	$2,610.00
Total Monthly Income	**$8,333.33**	**$4,610.00**

Fixed Monthly Expenses	Current	Retirement
Mortgage payment or rent	$1,600.00	$0.00
2nd home mortgage	$0.00	$0.00
Automobile note	$0.00	$0.00
Personal loans	$0.00	$0.00
Credit cards	$0.00	$0.00
Life insurance	$0.00	$0.00
Disability insurance	$0.00	$0.00
Medical insurance	$250.00	$125.00
Long-term care insurance	$0.00	$0.00
Homeowner's insurance	$65.00	$65.00
Automobile insurance	$75.00	$75.00
Umbrella liability insurance	$0.00	$0.00
Federal income taxes	$900.00	$365.00
State income taxes	$360.00	$0.00
FICA	$475.00	$150.00
Real estate taxes	$625.00	$625.00
Other taxes	$0.00	$0.00
Savings (regularly)	$0.00	$0.00
Investments (incl. IRAs)	$334.00	$0.00
Retirement Plan Contributions	$833.00	$0.00
Total Fixed Expenses	**$5,517.00**	**$1,405.00**

Variable Monthly Expenses	Current	Retirement
Electricity	$85.00	$85.00
Gas	$70.00	$70.00
Telephone	$60.00	$60.00
Water	$40.00	$40.00
Cable TV and Internet	$120.00	$120.00
Home repairs and maintenance	$60.00	$60.00
Home improvements	$110.00	$110.00
Food	$800.00	$800.00
Clothing	$70.00	$70.00
Laundry	$15.00	$15.00
Child care	$0.00	$0.00
Personal care	$60.00	$60.00
Automobile gas & oil	$175.00	$135.00
Automobile repairs, etc.	$100.00	$100.00
Other transportation	$25.00	$25.00
Education expenses	$0.00	$0.00
Entertainment/dining	$125.00	$250.00
Recreation/travel	$200.00	$400.00
Club/association dues	$50.00	$100.00
Hobbies	$50.00	$100.00
Gifts / Donations	$500.00	$500.00
(Not reimbursed) Medical, and dental expenses	$50.00	$50.00
Miscellaneous	$50.00	$50.00
Total Variable Expenses	**$2,815.00**	**$3,200.00**

Net Cash Flow	Current	Retirement
Total monthly income	$8,333.33	$4,610.00
Total fixed expenses	$5,517.00	$1,405.00
Total variable expenses	$2,815.00	$3,200.00
Discretionary Income (Income - Expenses)	**$1.33**	**$5.00**

2012 Federal and State Income Tax Returns (Scenario One: Their Last Year of Employment)

Form **1040** Department of the Treasury—Internal Revenue Service (99)
U.S. Individual Income Tax Return **2012** OMB No. 1545-0074 IRS Use Only—Do not write or staple in this space.

For the year Jan. 1–Dec. 31, 2012, or other tax year beginning , 2012, ending , 20 — See separate instructions.

Your first name and initial: Opti	Last name: Miser	Your social security number: 112-34-5678
If a joint return, spouse's first name and initial: Maxi	Last name: Miser	Spouse's social security number: 123-45-6789
Home address (number and street). If you have a P.O. box, see instructions.: 123 Easy Street	Apt. no.	▲ Make sure the SSN(s) above and on line 6c are correct.
City, town or post office, state, and ZIP code. If you have a foreign address, also complete spaces below (see instructions).: Somewhere IL 60606		**Presidential Election Campaign** Check here if you, or your spouse if filing jointly, want $3 to go to this fund. Checking a box below will not change your tax or refund. ☐ You ☐ Spouse
Foreign country name	Foreign province/state/county	Foreign postal code

Filing Status

Check only one box.

1 ☐ Single
2 ☒ Married filing jointly (even if only one had income)
3 ☐ Married filing separately. Enter spouse's SSN above and full name here. ▶
4 ☐ Head of household (with qualifying person). (See instructions.) If the qualifying person is a child but not your dependent, enter this child's name here. ▶
5 ☐ Qualifying widow(er) with dependent child

Exemptions

6a ☒ **Yourself.** If someone can claim you as a dependent, **do not** check box 6a — Boxes checked on 6a and 6b: 2
b ☒ **Spouse**

c **Dependents:**

(1) First name Last name	(2) Dependent's social security number	(3) Dependent's relationship to you	(4) ✓ if child under age 17 qualifying for child tax credit (see instructions)
			☐
			☐
			☐
			☐

No. of children on 6c who:
• lived with you
• did not live with you due to divorce or separation (see instructions)
Dependents on 6c not entered above

If more than four dependents, see instructions and check here ▶ ☐

d Total number of exemptions claimed — Add numbers on lines above ▶ 2

Income

Attach Form(s) W-2 here. Also attach Forms W-2G and 1099-R if tax was withheld.

If you did not get a W-2, see instructions.

Enclose, but do not attach, any payment. Also, please use **Form 1040-V.**

7	Wages, salaries, tips, etc. Attach Form(s) W-2	7	100,000.
8a	**Taxable** interest. Attach Schedule B if required	8a	
8b	**Tax-exempt** interest. **Do not** include on line 8a — 8b		
9a	Ordinary dividends. Attach Schedule B if required	9a	
9b	Qualified dividends — 9b		
10	Taxable refunds, credits, or offsets of state and local income taxes	10	
11	Alimony received	11	
12	Business income or (loss). Attach Schedule C or C-EZ	12	
13	Capital gain or (loss). Attach Schedule D if required. If not required, check here ▶ ☐	13	
14	Other gains or (losses). Attach Form 4797	14	
15a	IRA distributions — 15a — b Taxable amount	15b	
16a	Pensions and annuities — 16a — b Taxable amount	16b	
17	Rental real estate, royalties, partnerships, S corporations, trusts, etc. Attach Schedule E	17	
18	Farm income or (loss). Attach Schedule F	18	
19	Unemployment compensation	19	
20a	Social security benefits — 20a — b Taxable amount	20b	
21	Other income. List type and amount	21	
22	Combine the amounts in the far right column for lines 7 through 21. This is your **total income** ▶	22	100,000.

Adjusted Gross Income

23	Educator expenses	23			
24	Certain business expenses of reservists, performing artists, and fee-basis government officials. Attach Form 2106 or 2106-EZ	24			
25	Health savings account deduction. Attach Form 8889	25			
26	Moving expenses. Attach Form 3903	26			
27	Deductible part of self-employment tax. Attach Schedule SE	27			
28	Self-employed SEP, SIMPLE, and qualified plans	28			
29	Self-employed health insurance deduction	29			
30	Penalty on early withdrawal of savings	30			
31a	Alimony paid b Recipient's SSN ▶	31a			
32	IRA deduction	32	4,000.		
33	Student loan interest deduction	33			
34	Tuition and fees. Attach Form 8917	34			
35	Domestic production activities deduction. Attach Form 8903	35			
36	Add lines 23 through 35			36	4,000.
37	Subtract line 36 from line 22. This is your **adjusted gross income** ▶			37	96,000.

For Disclosure, Privacy Act, and Paperwork Reduction Act Notice, see separate instructions. BAA REV 02/07/13 TTW Form **1040** (2012)

Form 1040 (2012) Page 2

Tax and Credits	38	Amount from line 37 (adjusted gross income)			38	96,000.
	39a	Check if: ☐ **You** were born before January 2, 1948, ☐ Blind. ☐ **Spouse** was born before January 2, 1948, ☐ Blind. **Total boxes checked ▶ 39a**				
	b	If your spouse itemizes on a separate return or you were a dual-status alien, check here ▶ 39b ☐				
	40	**Itemized deductions** (from Schedule A) **or** your **standard deduction** (see left margin)			40	19,000.
	41	Subtract line 40 from line 38			41	77,000.
	42	**Exemptions.** Multiply $3,800 by the number on line 6d			42	7,600.
	43	**Taxable income.** Subtract line 42 from line 41. If line 42 is more than line 41, enter -0-			43	69,400.
	44	**Tax** (see instructions). Check if any from: a ☐ Form(s) 8814 b ☐ Form 4972 c ☐ 962 election			44	9,544.
	45	**Alternative minimum tax** (see instructions). Attach Form 6251			45	
	46	Add lines 44 and 45 ▶			46	9,544.
	47	Foreign tax credit. Attach Form 1116 if required	47			
	48	Credit for child and dependent care expenses. Attach Form 2441	48			
	49	Education credits from Form 8863, line 19	49			
	50	Retirement savings contributions credit. Attach Form 8880	50			
	51	Child tax credit. Attach Schedule 8812, if required	51			
	52	Residential energy credits. Attach Form 5695	52			
	53	Other credits from Form: a ☐ 3800 b ☐ 8801 c ☐	53			
	54	Add lines 47 through 53. These are your **total credits**			54	
	55	Subtract line 54 from line 46. If line 54 is more than line 46, enter -0- ▶			55	9,544.
Other Taxes	56	Self-employment tax. Attach Schedule SE			56	
	57	Unreported social security and Medicare tax from Form: a ☐ 4137 b ☐ 8919			57	
	58	Additional tax on IRAs, other qualified retirement plans, etc. Attach Form 5329 if required			58	
	59a	Household employment taxes from Schedule H			59a	
	b	First-time homebuyer credit repayment. Attach Form 5405 if required			59b	
	60	Other taxes. Enter code(s) from instructions			60	
	61	Add lines 55 through 60. This is your **total tax** ▶			61	9,544.
Payments	62	Federal income tax withheld from Forms W-2 and 1099	62	10,800.		
	63	2012 estimated tax payments and amount applied from 2011 return	63			
If you have a qualifying child, attach Schedule EIC.	64a	**Earned income credit (EIC)**	64a			
	b	Nontaxable combat pay election 64b				
	65	Additional child tax credit. Attach Schedule 8812	65			
	66	American opportunity credit from Form 8863, line 8	66			
	67	Reserved	67			
	68	Amount paid with request for extension to file	68			
	69	Excess social security and tier 1 RRTA tax withheld	69			
	70	Credit for federal tax on fuels. Attach Form 4136	70			
	71	Credits from Form: a ☐ 2439 b ☐ Reserved c ☐ 8801 d ☐ 8885	71			
	72	Add lines 62, 63, 64a, and 65 through 71. These are your **total payments** ▶			72	10,800.
Refund	73	If line 72 is more than line 61, subtract line 61 from line 72. This is the amount you **overpaid**			73	1,256.
	74a	Amount of line 73 you want **refunded to you.** If Form 8888 is attached, check here ▶ ☐			74a	1,256.
Direct deposit? See instructions.	▶ b	Routing number X X X X X X X X X ▶ c Type: ☐ Checking ☐ Savings				
	▶ d	Account number X X X X X X X X X X X X X X X X X				
	75	Amount of line 73 you want **applied to your 2013 estimated tax** ▶	75			
Amount You Owe	76	**Amount you owe.** Subtract line 72 from line 61. For details on how to pay, see instructions ▶			76	
	77	Estimated tax penalty (see instructions)	77			

Standard Deduction for— • People who check any box on line 39a or 39b **or** who can be claimed as a dependent, see instructions. • All others: Single or Married filing separately, $5,950; Married filing jointly or Qualifying widow(er), $11,900; Head of household, $8,700

Third Party Designee Do you want to allow another person to discuss this return with the IRS (see instructions)? ☐ **Yes.** Complete below. ☒ **No**

Designee's name ▶ Phone no. ▶ Personal identification number (PIN) ▶

Sign Here

Under penalties of perjury, I declare that I have examined this return and accompanying schedules and statements, and to the best of my knowledge and belief, they are true, correct, and complete. Declaration of preparer (other than taxpayer) is based on all information of which preparer has any knowledge.

Joint return? See instructions. Keep a copy for your records.

Your signature	Date	Your occupation	Daytime phone number
		Almost Retired	(847)123-4567
Spouse's signature. If a joint return, **both** must sign.	Date	Spouse's occupation	If the IRS sent you an Identity Protection PIN, enter it here (see inst.)
		Almost Retired	

Paid Preparer Use Only

Print/Type preparer's name	Preparer's signature	Date	Check ☐ if self-employed	PTIN
Firm's name ▶ SELF PREPARED		Firm's EIN ▶		
Firm's address ▶		Phone no.		

REV 02/07/13 TTW Form **1040** (2012)

Illinois Department of Revenue

2012 Form IL-1040

Individual Income Tax Return   or for fiscal year ending __ __/__ __

tax.illinois.gov

Step 1: Personal Information

Do not write above this line.

112-34-5678   123-45-6789

Opti   Miser

Maxi   Miser

123 Easy Street

Somewhere   IL   60606

C Filing status (see instructions)

☐ Single or head of household ☒ Married filing jointly ☐ Married filing separately ☐ Widowed

D Check if same-sex civil union return (see instructions) ☐

Step 2: Income

(Whole dollars only)

1	Federal adjusted gross income from your U.S. 1040, Line 37; U.S. 1040A, Line 21; or U.S. 1040EZ, Line 4	1	96,000.00
2	Federally tax-exempt interest and dividend income from your U.S. 1040 or 1040A, Line 8b; or U.S. 1040EZ	2	.00
3	Other additions. **Attach** Schedule M.	3	.00
4	**Total income.** Add Lines 1 through 3.	4	96,000.00

Step 3: Base Income

5	Social Security benefits and certain retirement plan income received if included in Line 1. **Attach** Page 1 of federal return.	5	.00		
6	Illinois Income Tax overpayment included in U.S. 1040, Line 10	6	.00		
7	Other subtractions. **Attach** Schedule M. Check if Line 7 includes any amount from Schedule 1299-C. ☐	7	.00		
8	Add Lines 5, 6, and 7. This is the total of your subtractions.			8	.00
9	**Illinois base income.** Subtract Line 8 from Line 4.			9	96,000.00

Step 4: Exemptions

10 a	Number of exemptions from your federal return 2 X $2,050	a	4,100.00		
b	If someone can claim you as a dependent, see instructions. ___ X $2,050	b	.00		
c	Check if 65 or older: ☐ You + ☐ Spouse = ___ X $1,000	c	.00		
d	Check if legally blind: ☐ You + ☐ Spouse = ___ X $1,000	d	.00		
	Exemption allowance. Add Lines a through d.			10	4,100.00

Step 5: Net Income

11	***Residents:*** **Net income.** Subtract Line 10 from Line 9. *Skip* Line 12.	11	91,900.00
12	***Nonresidents and part-year residents:*** Check the box that applies to you during 2012 ☐ Nonresident ☐ Part-year resident, and write the **Illinois base income** from Schedule NR. **Attach** Schedule NR.	12	.00

Step 6: Tax

13	***Residents:*** Multiply Line 11 by 5% (.05). ***Nonresidents and part-year residents:*** Write the tax from Schedule NR.	13	4,595.00
14	Recapture of investment tax credits. **Attach** Schedule 4255.	14	.00
15	**Income tax.** Add Lines 13 and 14. Cannot be less than zero.	15	4,595.00

Step 7: Tax After Non-refundable Credits

16	Income tax paid to another state while an Illinois resident. **Attach** Schedule CR.	16	.00		
17	Property tax and K-12 education expense credit amount from Schedule ICR. **Attach** Schedule ICR.	17	375.00		
18	Credit amount from Schedule 1299-C. **Attach** Schedule 1299-C.	18	.00		
19	Add Lines 16, 17, and 18. This is the total of your credits. Cannot exceed the tax amount on Line 15.			19	375.00
20	**Tax after nonrefundable credits.** Subtract Line 19 from Line 15.			20	4,220.00

Staple W-2 and 1099 forms here

Staple your check and IL-1040-V

ID: 3WM REV 01/03/13 TTW

IL-1040 front (R-12/12)

This form is authorized as outlined under the Illinois Income Tax Act. Disclosure of this information is required. Failure to provide information could result in a penalty.

	21 Tax after nonrefundable credits from Page 1, Line 20	21	4,220.00	
Step 8: Other Taxes	22 Household employment tax. See instructions.	22	.00	
	23 Use tax on internet, mail order, or other out-of-state purchases from UT Worksheet or UT Table in the instructions. **Do not** leave blank.	23	0.00	
	24 **Total Tax**. Add Lines 21, 22, and 23.	24		4,220.00
Step 9: Payments and Refundable Credit	25 Illinois Income Tax withheld. **Attach** W-2 and 1099 forms.	25	5,000.00	
	26 Estimated payments from Forms IL-1040-ES and IL-505-I, including overpayment applied from 2011 return	26	.00	
	27 Pass-through entity tax payments. **Attach** Schedule K-1-P or K-1-T.	27	.00	
	28 Earned Income Credit from Schedule ICR. **Attach** Schedule ICR.	28	.00	
	29 **Total payments and refundable credit**. Add Lines 25 through 28.	29		5,000.00
Step 10: Result	30 **Overpayment**. If Line 29 is greater than Line 24, subtract Line 24 from Line 29.	30		780.00
	31 **Underpayment**. If Line 24 is greater than Line 29, subtract Line 29 from Line 24.	31		.00
Step 11: Underpayment of Estimated Tax Penalty and Donations	32 Late-payment penalty for underpayment of estimated tax.	32	.00	
	a Check if at least two-thirds of your federal gross income is from farming. ☐			
	b Check if you or your spouse are 65 or older and permanently living in a nursing home. ☐			
	c Check if your income was not received evenly during the year and you annualized your income on Form IL-2210. **Attach** Form IL-2210. ☐			
	d Check if you were not required to file an Illinois Individual Income Tax return in the previous tax year. ☐			
	33 Voluntary charitable donations. **Attach** Schedule G.	33	.00	
	34 **Total penalty and donations**. Add Lines 32 and 33.	34		.00
Step 12: Refund or Amount You Owe	35 If you have an overpayment on Line 30 and this amount is greater than Line 34, subtract Line 34 from Line 30. This is your remaining **overpayment**.	35		780.00
	36 Amount from Line 35 you want **refunded to you**. If you want to deposit your refund directly into your checking or savings account, complete the direct deposit information on Line 37.	36		780.00

37 Complete to direct deposit your refund
Routing number ☐☐☐☐☐☐☐☐☐ ☐ Checking or ☐ Savings
Account number ☐☐☐☐☐☐☐☐☐☐☐☐☐☐☐☐☐

38 Subtract Line 36 from Line 35. This amount will be **applied to your 2013 estimated tax**. 38 0.00

39 If you have an underpayment on Line 31, add Lines 31 and 34. **or**
If you have an overpayment on Line 30 and this amount is less than Line 34, subtract Line 30 from Line 34. This is the **amount you owe**. See instructions. 39 .00

Step 13: Sign and Date

Under penalties of perjury, I state that I have examined this return, and, to the best of my knowledge, it is true, correct, and complete.

Your signature ____ Date ____ (847)123-4567 Daytime phone number ____ Your spouse's signature ____ Date ____

Self-Prepared Paid preparer's signature ____ Date ____ Preparer's phone number ____ Preparer's FEIN, SSN, or PTIN ____

Third Party Designee ☐ Check, and complete below, to allow another person to discuss this return with the Illinois Department of Revenue.

Designee's Name (please print) ____ Designee's Phone number ____

Form 1099-G Information ☐ We no longer automatically mail 1099-G forms. Instead, we ask that you get this information from our website. Check the box if you still want us to mail you a paper Form 1099-G next year.

If no payment enclosed, mail to:
ILLINOIS DEPARTMENT OF REVENUE
PO BOX 1040
GALESBURG IL 61402-1040

If payment enclosed, mail to:
ILLINOIS DEPARTMENT OF REVENUE
SPRINGFIELD IL 62726-0001

ID: 3WM REV 01/03/13 TTW
IL-1040 back (R-12/12)

DR____ AP____ RR DC

2012 Federal and State Income Tax Returns (Scenario Two: Their First Year of Retirement)

Form **1040** Department of the Treasury—Internal Revenue Service (99)
U.S. Individual Income Tax Return **2012** OMB No. 1545-0074 IRS Use Only—Do not write or staple in this space.

For the year Jan. 1–Dec. 31, 2012, or other tax year beginning , 2012, ending , 20 — See separate instructions.

Your first name and initial	Last name	Your social security number
Opti	Miser	112-34-5678
If a joint return, spouse's first name and initial	**Last name**	**Spouse's social security number**
Maxi	Miser	123-45-6789

Home address (number and street). If you have a P.O. box, see instructions. Apt. no.
123 Easy Street

▲ Make sure the SSN(s) above and on line 6c are correct.

City, town or post office, state, and ZIP code. If you have a foreign address, also complete spaces below (see instructions).
Somewhere IL 60606

Foreign country name | Foreign province/state/county | Foreign postal code

Presidential Election Campaign Check here if you, or your spouse if filing jointly, want $3 to go to this fund. Checking a box below will not change your tax or refund. ☐ You ☐ Spouse

Filing Status

Check only one box.

1 ☐ Single
2 ☒ Married filing jointly (even if only one had income)
3 ☐ Married filing separately. Enter spouse's SSN above and full name here. ▶
4 ☐ Head of household (with qualifying person). (See instructions.) If the qualifying person is a child but not your dependent, enter this child's name here. ▶
5 ☐ Qualifying widow(er) with dependent child

Exemptions

6a ☒ **Yourself.** If someone can claim you as a dependent, **do not** check box 6a
b ☒ **Spouse**

Boxes checked on 6a and 6b: 2

c **Dependents:**

(1) First name Last name	(2) Dependent's social security number	(3) Dependent's relationship to you	(4) ✓ if child under age 17 qualifying for child tax credit (see instructions)
			☐
			☐
			☐
			☐

If more than four dependents, see instructions and check here ▶ ☐

No. of children on 6c who:
• lived with you
• did not live with you due to divorce or separation (see instructions)
Dependents on 6c not entered above

d Total number of exemptions claimed — Add numbers on lines above ▶ 2

Income

Attach Form(s) W-2 here. Also attach Forms W-2G and 1099-R if tax was withheld.

If you did not get a W-2, see instructions.

Enclose, but do not attach, any payment. Also, please use **Form 1040-V.**

7	Wages, salaries, tips, etc. Attach Form(s) W-2		7	
8a	**Taxable** interest. Attach Schedule B if required		8a	
b	**Tax-exempt** interest. **Do not** include on line 8a	8b		
9a	Ordinary dividends. Attach Schedule B if required		9a	
b	Qualified dividends	9b		
10	Taxable refunds, credits, or offsets of state and local income taxes		10	
11	Alimony received		11	
12	Business income or (loss). Attach Schedule C or C-EZ		12	
13	Capital gain or (loss). Attach Schedule D if required. If not required, check here ▶ ☐		13	
14	Other gains or (losses). Attach Form 4797		14	
15a	IRA distributions	15a	b Taxable amount 15b	31,320.
16a	Pensions and annuities	16a	b Taxable amount 16b	24,000.
17	Rental real estate, royalties, partnerships, S corporations, trusts, etc. Attach Schedule E		17	
18	Farm income or (loss). Attach Schedule F		18	
19	Unemployment compensation		19	
20a	Social security benefits	20a	b Taxable amount 20b	
21	Other income. List type and amount		21	
22	Combine the amounts in the far right column for lines 7 through 21. This is your **total income** ▶		22	55,320.

Adjusted Gross Income

23	Educator expenses	23		
24	Certain business expenses of reservists, performing artists, and fee-basis government officials. Attach Form 2106 or 2106-EZ	24		
25	Health savings account deduction. Attach Form 8889	25		
26	Moving expenses. Attach Form 3903	26		
27	Deductible part of self-employment tax. Attach Schedule SE	27		
28	Self-employed SEP, SIMPLE, and qualified plans	28		
29	Self-employed health insurance deduction	29		
30	Penalty on early withdrawal of savings	30		
31a	Alimony paid b Recipient's SSN ▶	31a		
32	IRA deduction	32		
33	Student loan interest deduction	33		
34	Tuition and fees. Attach Form 8917	34		
35	Domestic production activities deduction. Attach Form 8903	35		
36	Add lines 23 through 35		36	
37	Subtract line 36 from line 22. This is your **adjusted gross income** ▶		37	55,320.

For Disclosure, Privacy Act, and Paperwork Reduction Act Notice, see separate instructions. BAA REV 02/07/13 TTW Form **1040** (2012)

Form 1040 (2012) Page **2**

Tax and Credits

38	Amount from line 37 (adjusted gross income)	38	55,320.
39a	Check if: ☐ **You** were born before January 2, 1948, ☐ Blind. ☐ **Spouse** was born before January 2, 1948, ☐ Blind. **Total boxes checked ▶ 39a**		
b	If your spouse itemizes on a separate return or you were a dual-status alien, check here ▶ 39b ☐		
40	**Itemized deductions** (from Schedule A) **or** your **standard deduction** (see left margin)	40	12,890.
41	Subtract line 40 from line 38	41	42,430.
42	**Exemptions.** Multiply $3,800 by the number on line 6d	42	7,600.
43	**Taxable income.** Subtract line 42 from line 41. If line 42 is more than line 41, enter -0-	43	34,830.
44	**Tax** (see instructions). Check if any from: **a** ☐ Form(s) 8814 **b** ☐ Form 4972 **c** ☐ 962 election	44	4,354.
45	**Alternative minimum tax** (see instructions). Attach Form 6251	45	
46	Add lines 44 and 45 ▶	46	4,354.
47	Foreign tax credit. Attach Form 1116 if required	47	
48	Credit for child and dependent care expenses. Attach Form 2441	48	
49	Education credits from Form 8863, line 19	49	
50	Retirement savings contributions credit. Attach Form 8880	50	
51	Child tax credit. Attach Schedule 8812, if required	51	
52	Residential energy credits. Attach Form 5695	52	
53	Other credits from Form: **a** ☐ 3800 **b** ☐ 8801 **c** ☐	53	
54	Add lines 47 through 53. These are your **total credits**	54	
55	Subtract line 54 from line 46. If line 54 is more than line 46, enter -0- ▶	55	4,354.

Standard Deduction for—
- People who check any box on line 39a or 39b **or** who can be claimed as a dependent, see instructions.
- All others:

Single or Married filing separately, $5,950
Married filing jointly or Qualifying widow(er), $11,900
Head of household, $8,700

Other Taxes

56	Self-employment tax. Attach Schedule SE	56	
57	Unreported social security and Medicare tax from Form: **a** ☐ 4137 **b** ☐ 8919	57	
58	Additional tax on IRAs, other qualified retirement plans, etc. Attach Form 5329 if required	58	
59a	Household employment taxes from Schedule H	59a	
b	First-time homebuyer credit repayment. Attach Form 5405 if required	59b	
60	Other taxes. Enter code(s) from instructions	60	
61	Add lines 55 through 60. This is your **total tax** ▶	61	4,354.

Payments

If you have a qualifying child, attach Schedule EIC.

62	Federal income tax withheld from Forms W-2 and 1099	62	5,532.
63	2012 estimated tax payments and amount applied from 2011 return	63	
64a	**Earned income credit (EIC)**	64a	
b	Nontaxable combat pay election 64b		
65	Additional child tax credit. Attach Schedule 8812	65	
66	American opportunity credit from Form 8863, line 8	66	
67	Reserved	67	
68	Amount paid with request for extension to file	68	
69	Excess social security and tier 1 RRTA tax withheld	69	
70	Credit for federal tax on fuels. Attach Form 4136	70	
71	Credits from Form: **a** ☐ 2439 **b** ☐ Reserved **c** ☐ 8801 **d** ☐ 8885	71	
72	Add lines 62, 63, 64a, and 65 through 71. These are your **total payments** ▶	72	5,532.

Refund

73	If line 72 is more than line 61, subtract line 61 from line 72. This is the amount you **overpaid**	73	1,178.
74a	Amount of line 73 you want **refunded to you.** If Form 8888 is attached, check here ▶ ☐	74a	1,178.
▶ b	Routing number X X X X X X X X X ▶ **c** Type: ☐ Checking ☐ Savings		
▶ d	Account number X X X X X X X X X X X X X X X X X		
75	Amount of line 73 you want **applied to your 2013 estimated tax** ▶ 75		

Direct deposit? See instructions.

Amount You Owe

76	**Amount you owe.** Subtract line 72 from line 61. For details on how to pay, see instructions ▶	76	
77	Estimated tax penalty (see instructions) 77		

Third Party Designee

Do you want to allow another person to discuss this return with the IRS (see instructions)? ☐ **Yes.** Complete below. ☒ **No**

Designee's name ▶ Phone no. ▶ Personal identification number (PIN) ▶

Sign Here

Under penalties of perjury, I declare that I have examined this return and accompanying schedules and statements, and to the best of my knowledge and belief, they are true, correct, and complete. Declaration of preparer (other than taxpayer) is based on all information of which preparer has any knowledge.

Joint return? See instructions. Keep a copy for your records.

Your signature	Date	Your occupation	Daytime phone number
		I'm Retired - Hurrah!	(847)123-4567
Spouse's signature. If a joint return, **both** must sign.	Date	Spouse's occupation	If the IRS sent you an Identity Protection PIN, enter it here (see inst.)
		I'm Retired - Hurrah!	

Paid Preparer Use Only

Print/Type preparer's name	Preparer's signature	Date	Check ☐ if self-employed	PTIN

Firm's name ▶ SELF PREPARED   Firm's EIN ▶
Firm's address ▶   Phone no.

REV 02/07/13 TTW   Form **1040** (2012)

Illinois Department of Revenue

2012 Form IL-1040

Individual Income Tax Return   or for fiscal year ending __ __/__ __

WebFile
tax.illinois.gov

Do not write above this line.

Step 1: Personal Information

112-34-5678   123-45-6789

Opti   Miser

Maxi   Miser

123 Easy Street

Somewhere   IL   60606

C Filing status (see instructions)

☐ Single or head of household ☒ Married filing jointly ☐ Married filing separately ☐ Widowed

D Check if same-sex civil union return (see instructions) ☐

Step 2: Income (Whole dollars only)

1	Federal adjusted gross income from your U.S. 1040, Line 37; U.S. 1040A, Line 21; or U.S. 1040EZ, Line 4	1	55,320.00
2	Federally tax-exempt interest and dividend income from your U.S. 1040 or 1040A, Line 8b; or U.S. 1040EZ	2	.00
3	Other additions. **Attach** Schedule M.	3	.00
4	**Total income.** Add Lines 1 through 3.	4	55,320.00

Step 3: Base Income

5	Social Security benefits and certain retirement plan income received if included in Line 1. **Attach** Page 1 of federal return.	5	55,320.00		
6	Illinois Income Tax overpayment included in U.S. 1040, Line 10	6	.00		
7	Other subtractions. **Attach** Schedule M. Check if Line 7 includes any amount from Schedule 1299-C. ☐	7	.00		
8	Add Lines 5, 6, and 7. This is the total of your subtractions.			8	55,320.00
9	**Illinois base income.** Subtract Line 8 from Line 4.			9	0.00

Step 4: Exemptions

10 a Number of exemptions from your federal return ___2___ X $2,050 a ___4,100.00___

b If someone can claim you as a dependent, see instructions. ____ X $2,050 b ______.00

c Check if 65 or older: ☐ You + ☐ Spouse = ____ X $1,000 c ______.00

d Check if legally blind: ☐ You + ☐ Spouse = ____ X $1,000 d ______.00

Exemption allowance. Add Lines a through d. 10 ___4,100.00___

Step 5: Net Income

11 ***Residents:* Net income.** Subtract Line 10 from Line 9. *Skip* Line 12. 11 ___0.00___

12 ***Nonresidents and part-year residents:***
Check the box that applies to you during 2012 ☐ Nonresident ☐ Part-year resident, and write the **Illinois base income** from Schedule NR. **Attach** Schedule NR. 12 ______.00

Step 6: Tax

13 ***Residents:*** Multiply Line 11 by 5% (.05).
Nonresidents and part-year residents: Write the tax from Schedule NR. 13 ___0.00___

14 Recapture of investment tax credits. **Attach** Schedule 4255. 14 ______.00

15 **Income tax.** Add Lines 13 and 14. Cannot be less than zero. 15 ___0.00___

Step 7: Tax After Non-refundable Credits

16 Income tax paid to another state while an Illinois resident. **Attach** Schedule CR. 16 ______.00

17 Property tax and K-12 education expense credit amount from Schedule ICR. **Attach** Schedule ICR. 17 ______.00

18 Credit amount from Schedule 1299-C. **Attach** Schedule 1299-C. 18 ______.00

19 Add Lines 16, 17, and 18. This is the total of your credits. Cannot exceed the tax amount on Line 15. 19 ___0.00___

20 **Tax after nonrefundable credits.** Subtract Line 19 from Line 15. 20 ___0.00___

Staple W-2 and 1099 forms here

Staple your check and IL-1040-V

ID: 3WM REV 01/03/13 TTW
IL-1040 front (R-12/12)

This form is authorized as outlined under the Illinois Income Tax Act. Disclosure of this information is required. Failure to provide information could result in a penalty.

	21	Tax after nonrefundable credits from Page 1, Line 20	21 0.00	
Step 8: Other Taxes	22	Household employment tax. See instructions.	22 .00	
	23	Use tax on internet, mail order, or other out-of-state purchases from UT Worksheet or UT Table in the instructions. **Do not** leave blank.	23 0.00	
	24	**Total Tax**. Add Lines 21, 22, and 23.		24 0.00
Step 9: Payments and Refundable Credit	25	Illinois Income Tax withheld. **Attach** W-2 and 1099 forms.	25 0.00	
	26	Estimated payments from Forms IL-1040-ES and IL-505-I, including overpayment applied from 2011 return	26 .00	
	27	Pass-through entity tax payments. **Attach** Schedule K-1-P or K-1-T.	27 .00	
	28	Earned Income Credit from Schedule ICR. **Attach** Schedule ICR.	28 .00	
	29	**Total payments and refundable credit**. Add Lines 25 through 28.		29 0.00
Step 10: Result	30	**Overpayment**. If Line 29 is greater than Line 24, subtract Line 24 from Line 29.		30 .00
	31	**Underpayment**. If Line 24 is greater than Line 29, subtract Line 29 from Line 24.		31 0.00
Step 11: Underpayment of Estimated Tax Penalty and Donations	32	Late-payment penalty for underpayment of estimated tax.	32 .00	
		a Check if at least two-thirds of your federal gross income is from farming. ☐		
		b Check if you or your spouse are 65 or older and permanently living in a nursing home. ☐		
		c Check if your income was not received evenly during the year and you annualized your income on Form IL-2210. **Attach** Form IL-2210. ☐		
		d Check if you were not required to file an Illinois Individual Income Tax return in the previous tax year. ☐		
	33	Voluntary charitable donations. **Attach** Schedule G.	33 .00	
	34	**Total penalty and donations**. Add Lines 32 and 33.		34 .00
Step 12: Refund or Amount You	35	If you have an overpayment on Line 30 and this amount is greater than Line 34, subtract Line 34 from Line 30. This is your remaining **overpayment**.		35 .00
	36	Amount from Line 35 you want **refunded to you**. If you want to deposit your refund directly		
	37	Complete to direct deposit your refund Routing number ☐☐☐☐☐☐☐☐☐ ☐ Checking or ☐ Savings Account number ☐☐☐☐☐☐☐☐☐☐☐☐☐☐☐☐☐		
	38	Subtract Line 36 from Line 35. This amount will be **applied to your 2013 estimated tax**.		38 .00
	39	If you have an underpayment on Line 31, add Lines 31 and 34. **or** If you have an overpayment on Line 30 and this amount is less than Line 34, subtract Line 30 from Line 34. This is the **amount you owe**. See instructions.		39 0.00

Step 13: Sign and Date

Under penalties of perjury, I state that I have examined this return, and, to the best of my knowledge, it is true, correct, and complete.

Your signature ____ Date ____ (847) 123-4567 Daytime phone number ____ Your spouse's signature ____ Date ____

Self-Prepared Paid preparer's signature ____ Date ____ Preparer's phone number ____ Preparer's FEIN, SSN, or PTIN ____

Third Party Designee ☐ Check, and complete below, to allow another person to discuss this return with the Illinois Department of Revenue.

Designee's Name (please print) ____ Designee's Phone number ____

Form 1099-G Information ☐ We no longer automatically mail 1099-G forms. Instead, we ask that you get this information from our website. Check the box if you still want us to mail you a paper Form 1099-G next year.

If no payment enclosed, mail to:
ILLINOIS DEPARTMENT OF REVENUE
PO BOX 1040
GALESBURG IL 61402-1040

If payment enclosed, mail to:
ILLINOIS DEPARTMENT OF REVENUE
SPRINGFIELD IL 62726-0001

ID: 3WM REV 01/03/13 TTW
IL-1040 back (R-12/12) DR____ AP____ RR DC

References

1. Bureau of Economic Analysis, National Income and Product Account Tables**,** at: http://www.bea.gov/

2. Bureau of Labor Statistics, *Labor Force Statistics from the Current Population Survey: Labor Force Participation Rat*e, at: http://data.bls.gov.

3. Smirnova, Natalia V., *Business Cycle Conditions*, October, 2013, p.5, American Institute for Economic Research (AIER) at: https://www.aier.org/article/8211-labor-woes-persist

4. Employee Benefit Research Institute, *2013 Retirement Confidence Survey*, at: http://ebri.org/pdf/surveys/rcs/2013/Final-FS.RCS-13.FS_2.Expects.FINAL.pdf

5. Wang, Penelope, *Uh-Oh!, You're About to Retire*, Money, June, 2013, p.30.

6. Information about all Vanguard funds, including their performance, was obtained through the **Vanguard Financial Advisor Website**. This same information is available to investors at: https://personal.vanguard.com/.

7. More information on all Cook county property tax exemptions can be found at: http://www.cookcountyassessor.com/exemptions.aspx

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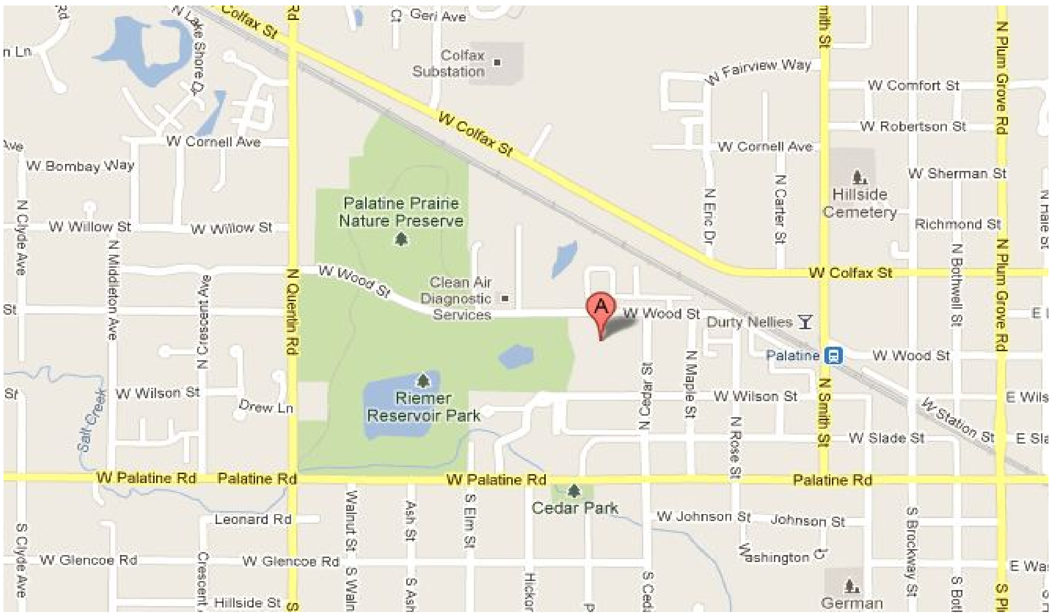

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