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### **Where To Retire To?**

Individuals and business owners work hard and often look forward to their retirement years. Time to kick back, relax and enjoy some interests they may have been limited in enjoying during their working years. The question remains: Where should I retire to?

I get asked this question all the time by clients, and in the past I didn't have a clear cut answer for them as to which state would meet their needs. Sure, major magazines such as Money and Kiplinger Finance run a feature from time to time about which states are best for retirees. However, I do not like their methodology for ranking the states. In fact, I found what they wrote about each of the top ten states to be very biased.

Therefore, I have developed my own list based on objective measurements that ultimately minimizes the costs to retirees. Factored into the measurements are taxes, as well as median values of homes, which reflect the cost of living in these states. In using my own system, I had to make judgments on certain tax rates and other factors, as not all states use the same method for taxation in different areas.

What I did not factor into the measurements are aspects such as culture, medical resources, weather and other factors that vary by state. Weather is often a major factor-some like it hot; some like it cold.

The categories are: sales tax rates, income tax rates, taxation of retirement benefits, real estate taxes and median housing values. I scoured the universe to obtain reliable raw data, and did not use published information from the various states because certain key information could be omitted. For example, a state might say it has a sales tax rate of 4%, but that may not include a local sales tax of 2%, which makes the total tax of 6% a little less attractive.

I found the raw data for sales tax from The Sales Tax Clearinghouse, which uses a weighted average sales tax rate that includes the state and the local portion. The income rates were derived from numerous publications and the highest marginal rate being used. Median real estate taxes and house values were obtained from the Tax Foundation.

Factors such as utilities and food costs could have been factored in; however, this would have complicated the measure. I felt that the median housing values would serve as a solid reflection of those costs. State estate taxes are also an important category, but there is no uniformity of how the tax is applied and loads of exemptions make this category difficult to evaluate.

Using all of the raw data compiled, I developed my own scoring system that ranked each state from the lowest to the highest in tax rates, median house values, and taxation of retirement benefits. A state that had the lowest value was assigned a score of 1 and then the next lowest state was assigned a 2, and so forth.

The scores were totaled for all categories, and the states were ranked based on the lowest overall total score. The lowest possible score is 6 and the highest score 306.

Please keep in mind that a difference of 10 to 20 points might not be significant for one state compared to another.

The top 10 states are:

<u>Rank</u>	<u>State</u>	<u>Combined Score</u>
1	South Dakota	50
2	Wyoming	52
3	Mississippi	57
4	Alabama	73
5	Kentucky	75
6	Indiana	78
7	Tennessee	80
8	Alaska	82
9	Florida	84
10	Michigan	88

The bottom 10 states are:

42	Oregon	169
43	Washington, DC	170
44	Maryland	173
45	Vermont	189
46	Connecticut	190
47	Rhode Island	190
48	Minnesota	191
49	New Jersey	211
50	New York	221
51	California	235

Here are my thoughts on the results. There were some surprises in the top 10. The general rule that southern states are always cheaper to live in is not completely true. I was surprised to see Alabama (4) and Mississippi (3) ranked so high. I was shocked that Indiana (6) and Michigan (10) placed high on the list since they are essentially rust belt states. At the heart of the matter, these are very conservative states and the tax policies reflect this.

Texas (12) and Pennsylvania (13) just missed the top 10, but given their scores they should still be considered among the top. The real estate taxes in Pennsylvania can be brutal, and I thought this category would drag it down. If Pennsylvania is an option, avoid the big cities.

Virginia (36) ranked lower due to the higher real estate and house values in Northern Virginia and higher taxation of retirement benefits. However, I thought rural Virginia would be a great bargain itself. Rural Virginia was going to be my retirement home until I discovered the Rocky Mountains in Colorado.

There were two surprises in the bottom 10: Minnesota (48) and Maryland (44). Minnesota found itself on the lower end mainly because it has a high sales tax and income tax compared to other states. Maryland, while it has a reasonable sales tax, had its ranking lowered because of its income tax, taxation of retirement benefits and median house value. I was surprised that Maryland isn't as "retiree friendly" as I thought it was before doing this research.

It is becoming more apparent in these 10 states that only the super-rich retire there, as it is extremely difficult for non-retired, middle-class families to live and work in these states.

(See comparison of rankings on following page)

**Personal Financial Planning**  
**Where To Retire To**  
**Individual State Scores By Category**

	Sales Tax	Income Tax	Retirement Taxation	Housing R.E Taxes	Housing Cost	Total	Rank	State	Combined Score
Alabama	46	17	1	2	7	73	1	South Dakota	50
Alaska	5	1	1	39	36	82	2	Wyoming	52
Arizona	43	13	16	20	30	122	3	Mississippi	57
Arkansas	47	36	26	5	3	117	4	Alabama	73
California	44	49	51	42	49	235	5	Kentucky	75
Colorado	23	14	17	21	37	112	6	Indiana	78
Connecticut	22	31	43	50	44	190	7	Tennessee	80
DC	13	43	32	32	50	170	8	Alaska	82
Delaware	1	35	25	13	38	112	9	Florida	84
Florida	26	1	1	28	28	84	10	Michigan	88
Georgia	31	26	22	18	22	119	11	New Hampshire	91
Hawaii	6	50	1	17	51	125	12	Texas	92
Idaho	18	40	30	14	25	127	13	Pennsylvania	93
Illinois	42	17	18	45	32	154	14	North Dakota	94
Indiana	33	11	14	11	9	78	15	Oklahoma	97
Iowa	29	48	50	23	8	158	16	West Virginia	98
Kansas	41	30	42	25	11	149	17	Nevada	101
Kentucky	13	26	22	8	6	75	18	New Mexico	108
Louisiana	49	26	22	1	16	114	19	Colorado	112
Maine	7	43	32	31	27	140	20	Delaware	112
Maryland	13	42	31	41	46	173	21	Louisiana	114
Massachusetts	21	21	19	46	47	154	22	Arkansas	117
Michigan	13	12	15	34	14	88	23	Ohio	117
Minnesota	37	41	49	33	31	191	24	Georgia	119
Mississippi	33	17	1	4	2	57	25	Arizona	122
Missouri	38	26	41	16	19	140	26	South Carolina	122
Montana	1	34	47	22	26	130	27	Hawaii	125
Nebraska	13	33	46	35	10	137	28	Idaho	127
Nevada	39	1	1	27	33	101	29	Montana	130
New Hampshire	1	1	1	49	39	91	30	North Carolina	130
New Jersey	32	46	34	51	48	211	31	Washington	135
New Mexico	25	16	37	9	21	108	32	Utah	136
New York	48	46	34	48	45	221	33	Nebraska	137
North Carolina	29	38	28	15	20	130	34	Maine	140
North Dakota	12	15	36	26	5	94	35	Missouri	140
Ohio	28	24	21	29	15	117	36	Virginia	140
Oklahoma	44	22	20	7	4	97	37	Wisconsin	143
Oregon	1	51	39	37	41	169	38	Kansas	149
Pennsylvania	23	10	1	36	23	93	39	Illinois	154
Rhode Island	33	25	43	47	42	190	40	Massachusetts	154
South Carolina	36	36	26	6	18	122	41	Iowa	158
South Dakota	11	1	1	24	13	50	42	Oregon	169
Tennessee	51	1	1	10	17	80	43	DC	170
Texas	40	1	1	38	12	92	44	Maryland	173
Utah	27	17	38	19	35	136	45	Vermont	189
Vermont	18	45	48	44	34	189	46	Connecticut	190
Virginia	7	23	40	30	40	140	47	Rhode Island	190
Washington	50	1	1	40	43	135	48	Minnesota	191
West Virginia	18	31	45	3	1	98	49	New Jersey	211
Wisconsin	10	38	28	43	24	143	50	New York	221
Wyoming	9	1	1	12	29	52	51	California	235

\*Lower score is better