The DROP Retirement Guide For Michigan Police Officers & Firefighters

Leon C. LaBrecque, JD, CPA, CFP®, CFA
Matthew K. Teetor
LJPR Financial Advisors

What is a DROP? DROP is an acronym for Deferred Retirement Option Program. A DROP allows a participant to retire under the terms of their pension, and continue to work for their employer while having their monthly retirement benefit accrued to a "DROP Account." A participant may DROP for a proscribed period of time defined by the DROP provisions of the pension plan. At the end of the DROP period, the participant collects their pension (usually computed as of the date of the start of the DROP) plus a lump sum of the accumulated benefits, plus interest (and sometimes with contributions) from the DROP.

Example: Tom has 25 years with the department. His pension is $3,800 a month based on his payment method selected. His employer provides a 5 year DROP that does not allow additional employee contributions. The DROP account earns a fixed rate of interest at 4% (note this number varies by DROP plan). At the end of 5 years, Tom's DROP account is worth about $251,937. He then retires and begins collecting $3,800 a month, plus now has his DROP balance of $251,937.

DROPs are gaining popularity in Michigan, for a variety of reasons:

- DROPs can contain retiree health costs, since the DROP participant is on active employee health coverage during the DROP period, whereas they would be on retiree health had they not DROPped but merely retired. (Having a DROP retiree precludes hiring a replacement).
- DROPs can reduce pension accrual costs if retirement ages do not change. This is not actuarially true when a DROP allows earlier retirement than the "normal" plan, where a DROP can increase pension cost.
- DROPs allow a 100% transferable lump sum to the participant. If a participant takes a joint and survivor pension, the pension payments stop when both spouses die. The DROP balance is survivable to heirs.
- DROP balances allow a great deal of flexibility in payout and investment. Within certain guidelines, the participant can pick when to take their distributions from the DROP balance, and how to invest it.

© 2015 LJPR, LLC. all rights reserved

- DROP participants can take advantage of a variety of tax strategies, usually a rollover to a traditional IRA, but also including a Roth IRA conversion, which can make subsequent appreciation on the DROP balance tax-free.
- DROP reduces training costs by not having to train the replacement police officer or firefighter during the DROP period.

DROPs are criticized for a variety of reasons as well:

- DROPs clog the system, particularly at the adoption of a DROP program, with a bunch of retirees that stay on to take advantage of the DROP. This reduces promotion opportunities of the lower ranks until the first DROP group is assimilated.
- DROPs keep older members of the unit in the system longer.
- DROPs, if adopted while changing retirement age to an earlier date, can add to pension cost.

DROP Considerations. Some Michigan employers have adopted a DROP as a retirement option. As DROP participants retire, considerations include cash flow, taxes and investing. The primary attribute about DROPs, which affects all other considerations, is that DROP distributions are taxable. Understanding the tax considerations is paramount to using a DROP as a successful retirement tool.

Age matters. DROP balances are taxable as a distribution from a qualified plan. As such, any distributions from a DROP are taxed as a pension distribution. To avoid taxation (and possible penalties) on a DROP, the balance has to be rolled over (technically transferred) to an IRA or other qualified plan. A rollover avoids current tax.

The primary consideration is what portion (some, all, or none) of the DROP the participant wants currently taxed.

Tax Brackets: It's important to understand how tax brackets work. Michigan police officers and firefighters have some specific tax attributes.

Federal Tax:

• Standard Deduction or Itemized Deductions, whichever is greater;

• Personal exemptions for the taxpayers and dependents;

• Brackets starting at 10% and rising to the top bracket of 39.6% for 2015;

• Special rules for firefighters and police officers taking distributions at age 50 or later;

State Tax:

• Exemptions for the taxpayers and dependents;

• Exemption from Michigan Income Tax for municipal pensions;

© 2015 LJPR, LLC. all rights reserved

DROP tax effects: Taking a distribution from a DROP in the year of separation from service (DROP retirement) can not only incur tax on the distributions but shift the police officer or firefighter into a higher bracket. Because of other tax rules, DROP distributions can cause a variety of other tax costs:

- Floors. For some itemized deductions, there is a 'floor' based on Adjusted Gross Income (AGI). The most common of these are medical expenses and miscellaneous itemized deductions. Miscellaneous itemized deductions can include employee's business expenses like deductible uniforms or union dues. Taking a distribution decreases your itemized deductions if you are above the floor. Tuition and student loan interest deductions are above-the-line, but also subject to income limits.

- Certain credits, like child care credits and education credits, like the HOPE and Lifetime learning credit are subject to limits on income. Extra income from a DROP can eliminate these credits.

- At higher income levels, itemized deductions, like mortgage interest, property taxes and charitable donations, are reduced.

- At higher income levels, personal exemptions are phased-out.

- If one spouse is collecting social security, the increase in income can make the social security more taxable.

- If someone is on Medicare, higher income can generate higher Medicare B premiums. For example, in 2015, the 'normal' Medicare Part B monthly premium is $104.90. At high income, that can go to $335.70 a month

50 and Over Rule. Another important rule in looking at DROP taxes is the special rule for police officers and firefighters.

For all types of plans, distributions are taxed upon withdrawal. If the person is under age 59 ½, they will have to pay a 10% penalty for an early distribution unless they are rolling it into an IRA or other employer's plan. The exceptions to this penalty include distributions to a public safety officer (e.g. cop or firefighter) age 50 or older and separating from service. This means you don't have to pay a penalty in the year you retire and take a distribution if you are 50 or older. Note you must meet both conditions: be over age 50 and separate from service in the year you take the distribution. There are additional exceptions including the following:

- Distributions on account of the death of the participant;

- Distributions on account of disability of the participant;

- Distribution of substantially equal period payments (this is called the §72(t) exemption);

Example of taxes: Consider Tom who retires in June of 2015. For the first half of the year he made $38,000 of wages as a police officer. For July – December he'll get $3,800 a month from his pension, or $22,800. He gets about $18,000 of vacation buy-back and sick pay. He's 53 and his wife Debbie is 49. They have one son Scott, who's still their dependent, a freshman at MSU. Tom and Debbie own their house, but they owe $160,000 on the mortgage, at a rate of 4.0%.

© 2015 LJPR, LLC. all rights reserved

Their itemized deductions are $15,420 which includes Tom's union dues and job expenses of $1,100. Scott's MSU tuition is $10,500.

Tom and Debbie are wondering what to do with his DROP of $251,937. One idea they have is to take the whole DROP, pay the taxes, and pay off the mortgage. Paying off the mortgage will save them the monthly payment of $763.86. They wonder what the total cost of taking the DROP would be, compared to transferring the DROP to an IRA. For purposes of this example, we'll use 2015 tax rates and assume a 7.5% annual return on the IRA (which we'd only have for a half of a year in 2015, so 3.75%).

Options:

A. Take all of the DROP, pay taxes, pay off the mortgage;

B. Rollover the DROP and keep paying mortgage;

C. Rollover the DROP and take enough to cover the mortgage payment with a §72(t) election.

2015	Take money, pay off mortgage	Rollover DROP Keep mortgage	Rollover DROP Use IRA to pay mortgage
Income	78,800	78,800	78,800
DROP	251,937	-	6,426
Gross Inc	330,737	78,800	85,226
Itemized	14,840	15,105	15,105
Exemptions	9,840	12,000	12,000
Tuition	-	4,000	4,000
Taxable Inc	306,417	51,695	58,121
Tax	77,564	6,832	7,796
Mort pmt	160,000	4,583	(net)
IRA or inv	15,524	261,385	254,959

So, for 2015, it's apparent that as attractive as the mortgage pay-off is, taxes are outrageous. The DROP pushes Tom and Debbie into the 33% tax bracket. In addition, itemized deductions and exemptions are limited and they lose Scott's tuition deduction. Their taxes shoot to over $77,000 of which about $1,000 is alternative minimum tax (AMT)! This does not include the additional 10% tax penalty ($25,194) for non-qualified early distributions that would have been applied if Tom had been under age 50 (he's 53, so it doesn't matter)..

© 2015 LJPR, LLC. all rights reserved

Transferring the DROP into an IRA obviously has the smallest tax burden but they still have the burden of a mortgage payment.

Option C is making use of a loophole. Tom and Debbie transfer the DROP to an IRA and take an equal periodic distribution. In this case, the distribution could be used to pay the mortgage. This rule, called §72(t), allows a penalty free withdrawal as long as it's in a series of substantially equal payments. The stream has to continue for the later of 5 years or age 59 ½. If Tom and Debbie did this, they could take $1071 a month; have $160 withheld for taxes, leaving $911 for the payment and some cash. The result is similar, with a lot less taxes, plus about the same cash flow as paying off the mortgage.

To make this financial picture more useful, let's fast forward the scenario 10 years. Let's assume the IRA investments make 7.5 % and that tax rates for Tom and Debbie stay about the same.

2025	A	B	C
Income	45,600	45,600	58,452
Itemized	12,600	14,400	14,400
Exemptions	8,000	8,000	8,000
Taxable Inc	25,000	23,200	36,052
Tax	2,828	2,558	4,485
Mort pmt	-	9,186	9,186
IRA or inv	29,831	538,722	343,659
Net monthly cash	3,554	2,816	3,727

Their choices are more dramatic: They can take the whole DROP and pay off the mortgage and pay a bunch of taxes, or they can keep some or all of the money working for them, using the tax rules to their advantage, they end up having the same cash flow and building an IRA worth over $343,000.

IRA Rollover of DROP:

For most police officers and firefighters, doing an IRA transfer of a DROP is the most flexible option. The IRA allows the retiree to select distributions within certain guidelines and has an almost unlimited range of investments.

With a DROP transfer, the recipient IRA is called a Rollover IRA. For Rollover IRAs, distribution options include the following:

- **Pre age 59 ½ distributions** – Distributions from an IRA prior to age 59 ½ are subject to a 10% penalty unless exemptions are met. Here the only salient exemption to the penalty is

© 2015 LJPR, LLC. all rights reserved

the 72(t) exemption for substantially equal payments. THE AGE 50 EXEMPTION DOES NOT APPLY ONCE A DROP IS TRANSFERRED TO AN IRA.

- **59 ½ to 70 ½** – Between the ages of 59 ½ and 70 ½, a participant can take any distribution from an IRA they choose. All distributions are taxable.

- **At age 70 ½** – a participant must start taking distributions or face a 50% (not a typo – 50%!) penalty. The Required Minimum Distribution (RMD) is based off of an IRS chart called Table V and is calculated by taking the beginning of year balance and dividing by the life expectancy from the table. Obviously, the older you get, the shorter your life expectancy and thus the higher percentage you must withdraw.

- **Roth Conversion** – you can convert a tax-deferred traditional IRA into a tax-free Roth IRA. Roth IRAs are tax-free in growth and income. Roths are also not subject to the Required Minimum Distribution rules at age 70½ , so a Roth can be passed to a spouse or children (or grandchildren, for that matter) tax-free. The rules on Roth conversions are complex and beyond the scope of this book. For detailed information see our white paper on Roth conversions at www.ljpr.com, or contact our office for a copy.

Conduit Plans: With a direct rollover or an IRA you can roll a DROP into another plan other than an IRA. For example, Dave has a Sub-S corporation that he runs a small business through. Dave sets up a 401(k) plan in his company for himself and his employees (which could include his wife and kids of age). He could also roll his DROP directly into his qualified 401(k) plan. 401(k) plans allow you to keep contributing if you have income. In addition, 401(k) plans allow a penalty-free distribution after age 55, as opposed to 59 ½ in an IRA.

A retiree can also now use an IRA to get a DROP into a 401(k) or other qualified plan. To effectively do this, its better that the rollover IRA only holds a distribution from the DROP (or possible any taxable annuity withdrawal. For example, Sue retires at 51 and transfers her DROP into a rollover IRA. She does not mingle the rollover with any other IRAs. Two years after retirement, Sue sets up a single owner LLC to run her real estate business. She sets up a 401(k) plan to defer taxes. She can roll her IRA into her 401(k) plan. She can now manage her funds in one place, and can take penalty free withdrawals of any size in the year she turns 55 (instead of 59 ½).

Years and Age Rules. There are two types of age determinations for retirement. The 'hard rule' applies to age 59 ½. If the law states there are penalties on distributions prior to 59 ½, the law means exactly when you turn 59 ½. The age 50 special exemption for the police officers and the age 55 exemption for the non-IRA business types plans, the rule is "the year of". Thus, a police officer or firefighter is not penalized if they get a DROP distribution in the year they turn 50. For the 70 ½ rule, it's weirder – you have to take an RMD not later than April 1st of the year after you turn 70 ½ (which unfortunately results in you possibly taking two distributions in the year after you turn 70 ½).

Investing DROP rollovers: Investing is the first and foremost thing for a retiree to think about. The DROP is part of a pension – one good or bad thing about a DROP distribution is that a retiree can invest it any way he or she wants. The entire balance can be put into CDs (which probably insures it won't keep up with inflation) or all put into one stock or mutual fund (which is

© 2015 LJPR, LLC. all rights reserved

gambling and not as much fun as Vegas). It's probably operative for most police officers to remember what a DROP is and where it came from: it's your pension money that the pension plan saved for you during the DROP period. Accordingly, we think DROP monies should be invested like a pension plan. And how is a pension plan invested?

Pensions are invested to last the *time horizon* of the beneficiaries. Your DROP rollover hopefully should last you and your spouse and hopefully, to your kids or grandkids.

Pensions are diversified to reduce *risk*. Pension investment managers don't put all their eggs in one basket (or even two or three). A key risk reduction technique is to have a variety of asset groups.

Pensions are choosy about *ingredients*. If you're investing someone else's money for them and their families, what ingredients do you take? Only the finest, of course. Choosing good ingredients is an art and a science. That science is NOT to look at what WAS a good ingredient; the art is finding what WILL BE a good ingredient.

Pension Plans don't 'time' the market. Timing sounds like a great idea: get out when it starts to look bad and get back in when its getting good. In reality, this is very difficult. This first reason is that in the case of mutual funds, you can only buy or sell at the end of the day. So suppose you wake up on a Friday morning and something awful happens (you name the awful thing: volcano, terrorists, reality TV...etc.) and the market starts to crash. You call up your IRA custodian and sell everything. You'll get out, at the end of the day, when the market has already crashed maybe 2%. Now let's further suppose the weekend calms things down and things aren't as bad as they seem and some good news comes out. The futures are up and the market looks good. You decide to get back in, so you call the IRA custodian and order all that cash back in. The market goes up 2.5%, and you're back in…at the end of the day. You locked in a 2% loss and missed a 2.5% gain, in two days.

But let's use a real example. The S&P 500, a common measurement of the US stock market had about an 8.66% average annual return for the 20-year period ending 12/31/2013. Look at what happened if you missed just a few of the best days during that period. Note that this included both the meltdown in 2001 and the big meltdown in 2008.

	Starting amount 1993	**Ending amount 2013**	**Annual rate of return**
In every day	$10,000	$52,659	8.66%
Miss 10 best days	$10,000	$26,280	4.95%
Miss 20 best days	$10,000	$16,376	2.50%
Miss 30 best days	$10,000	$10,818	0.39%

How's that? Miss the 10 best days in 20 years and your return is cut in half. Miss 30 of the best days and you make almost nothing. Don't ask about what happens if your miss the 40 or 50 best days. The moral of the story is that pension plans stay invested.

Pensions have a mix that reflects a strategy to future growth and preservation. Most individual investors believe the trick to good investing is good 'picks': Get good funds or assets classes

© 2015 LJPR, LLC. all rights reserved

and hang onto them. Professional institutional investors know that the key is to have a great mix: a combination of bond and stock investments, different countries, different size companies, different types of bonds. The mix is the recipe. You need a great recipe and great ingredients.

Costs count: A very important point to remember is that the costs count – a lot. The average retail investor is 'sold' a lot of investments with a wide variety of fees and costs. These can range from "A" load mutual funds, which charge sales commissions as high as 8.5%. To "B" loads which charge surrender fees to leave the fund or fund family, "C" load funds charge a continuous fees called a §12(b)(1) fee which can reduce returns by 1% a year. Many times, police officers and firefighters consider annuities for DROP rollovers. Annuities can be full of fees and conditions, ranging from mutual fund fees to mortality and administration fees. In addition, most annuities have significant surrender fees.

How much do costs matter? Take the case of two funds that buy exactly the same investments the Mass Mutual Equity Index 500 and the Schwab Index 500, which are both invested in the S&P 500, an index of large US stocks. The Mass Mutual fund charges a front-end load (to pay the broker who sells it to you) of 5.75%. According to the current prospectus, the fund charges a management fee of 0.10% with a total yearly expense of 0.73%. The Schwab Fund doesn't charge a front end load and the management fee is only 0.06% per year with a total expense of 0.09%, per the current prospectus. That is considerably cheaper than the Mass Mutual fund. Per the fund company, the 2014 net returns, after total expenses, for the Schwab Fund and the Mass Mutual fund were 13.57% (low fee) and 12.89% (higher fee) respectively, and that didn't count the load.

Season to taste: The 'magic in the mix' notion means that a recipe has to be monitored and tweaked on a regular basis. If you follow the recipe example, then think about what happens as the dish progresses. The flavor changes and needs to be revised. What happens if you go to the grocery store and one of the ingredients (say steak) is way too expensive? You substitute another ingredient.

Rebalancing is a term in investing for keeping your investment recipe, or asset allocation, optimal. Rebalancing is an automatic way of reducing risk and in many cases, increasing return.

Here's how it works: Say you have two kinds of investments in your DROP rollover (you should have more, but it's our example, and we want it easy to follow): a bond fund and an equity fund. Suppose you have 60% of the IRA in the equity fund and 40% in the bond fund and you have $300,000 in your DROP rollover. That's $120,000 in the bond fund and $180,000 in the stock fund. Now suppose the stock market has a decent year (we hope!) and goes up 10%. Bonds, because of some inflation, don't do as well and go down 5% (when interest rates rise, bonds go down). So now, your IRA is $198,000 in equities and $114,000 in bonds. You're up to $312,000. Many investors would stay put: some would buy more stock (it went up!) and sell bonds (they went down!). However, if 60/40 is a good mix, our current mix is 64/36. We got a year older and now have a more aggressive mix. Professional investors of retirement funds would re-set the mix back to 60/40. Sell some equities (they're high), buy some bonds (they're low). Sell high, buy low: remarkable concept.

Rebalancing also gives an opportunity for re-looking at ingredients. This is a chance to look at the asset groups (do you have enough international or small companies?) as well as the

© 2015 LJPR, LLC. all rights reserved

individual ingredients (is a fund still outperforming its peers?) Did a manager leave or quit? In our shop, we might have 16-20 funds in a portfolio, with a 'farm team' of 10-20 more. We rebalance at least twice a year (sometimes more). It's a lot of work, but worth it: It keeps a good recipe fresh. There is substantial academic proof that rebalancing reduces risk. Professionally run pension plans rebalance periodically and retirees should consider it for their retirement funds as well.

Beneficiaries: Who gets your IRA when you croak (the legal term for dying)? So far, the discussion of DROP rollovers has covered how to fund your DROP rollover with the lowest tax, how to determine an effective withdrawal strategy, and how to invest your DROP rollover effectively. The next issue is to make sure the DROP rollover gets to the people you like when you die, in the most efficient manner. This is accomplished through the proper use of a beneficiary designation. Beneficiary designations are one of the most overlooked areas in police officer retirements.

We've seen all kinds of goof-ups ranging from only naming one beneficiary (hate to tell you this, but your beneficiaries will die too, eventually, and maybe before you) to forgetting to take ex-wives or ex-husbands off of a designation. How you look at a beneficiary designation can be addressed by a series of "then what happens?" questions:

"What happens to your DROP rollover when you die?" This is the first question and fortunately the one most people can answer.

"Then what happens if your primary beneficiary dies before you?" Kids? Grandkids? Charity?

"Then what happens if a child predeceases you?" To the other children? Grandchildren?

In other words, we suggest your beneficiary designations should be bullet-proof or close to it. You should have it arranged so all options are met. For example, a beneficiary designation might look like this:

Primary Beneficiary: Spouse 100%

Secondary Beneficiaries: Child one, 50% or their issue, by right of representation.
Child two, 50%, or their issue by right of representation.
With the survivor taking if there is no surviving issue.

This example at least covers the most common "what-ifs":

The spouse, if he or she survives;

The kids equally, if the spouse doesn't survive;

The grandkids or surviving kid if the spouse and kid(s) don't survive.

Taxes to beneficiaries: The taxes to the beneficiaries depend on who gets the DROP rollover. Is it a spouse or a non-spouse?

Spouse: A spouse who receives a DROP rollover can do a "spousal rollover" and turn the DROP rollover into his/her own IRA. From that point, the DROP rollover IRA is the spouse's and

© 2015 LJPR, LLC. all rights reserved

subject to his/her beneficiary designations and minimum distribution rules (remember that stuff about age 70 ½?). The spouse beneficiary pays taxes on the distributions.

Non-Spouse: (kids or grandkids): Non-spouse beneficiaries who inherit a DROP rollover receive it as an 'inherited IRA'. If the beneficiaries designated are individuals and are distributed a percentage of the DROP rollover (as opposed to a dollar amount), then they may take the distribution over a period of time. The longest period a non-spouse can take distributions from an inherited IRA is over their life expectancy (from the IRS tables). They also have the option of taking the money sooner. Non-spouse beneficiaries pay taxes on any distributions.

Estate: If the DROP owner fails to name a beneficiary or the named beneficiaries don't survive, the DROP rollover will go to their estate. This is bad for two reasons. First, the IRA is subject to probate and second, the funds must be disbursed (and taxed) within 5 years of the owner's death.

Trust: Simply naming a Trust as a beneficiary would seem to be a solution, but there is a technical issue (Don't you love lawyers?). For a Trust to effectively distribute an IRA over the longest possible period, it needs to have some very specific provisions so that the IRA will "flow-through" to the beneficiaries. There is also a special IRA trust which can be used to pass an IRA on to grandchildren or younger (or immature older) children, who need to have the IRA monitored and managed. In this case you can name the special IRA trust as a beneficiary.

Charity: A charity can be named a DROP IRA beneficiary. Charities are tax-exempt and passing an IRA to the charity avoids income tax. In addition, for people with big estates, leaving an IRA to charity can reduce both income taxes and estate taxes.

Bottom line: A DROP plan is a portion of a police officer's or firefighter's retirement program that has certain features and responsibilities. It is a significant lump sum that has a myriad of tax, cash flow, investment and estate planning choices. Effective planning with the DROP can optimize the value of the lump sum to a police officer or firefighter and their families.

If you would like a review of how to make your DROP rollover work for you, contact us at 248-641-7400 or Matthew.teetor@ljpr.com or leon.labrecque@ljpr.com and we can provide either a complementary one-on-one consultation or a group seminar at your location.

© 2015 LJPR, LLC. all rights reserved

Michigan Law Regarding Taxation of Police and Fire Pensions

The law modifies the deduction allowed for pension and retirement income, including Social Security. Rather than applying the modifications to each individual with income on the return, the bill bases the modifications on the age of the older spouse when the return is filed, as described below:

a) For taxpayers born before 1946, there will be no change in the treatment of retirement or pension income. Public pensions, as well as Social Security benefits and several other categories of income (including Social Security income), will be completely exempt from taxation.

b) For taxpayers born during the 1946 to 1952 period, the law eliminates the current exemptions for retirement and pension income, although the exemptions for Social Security income and several other types of income exempt under current law will be retained while the taxpayer is less than 67 years of age. Until the taxpayer reaches age 67, the law allows a new exemption that will exempt a portion of pension and retirement income ($20,000 for a single return or $40,000 for a joint return), regardless of whether the income is from a public or private pension. After the taxpayer reaches age 67, the bill keeps the exemption amount the same, but applies the exemption to all income, including retirement and nonretirement income. However, the bill retains the full exemption for Social Security income and selected other types of income excluded under current law. Regardless of age, the bill eliminates the $20,000/$40,000 exemption if total household resources exceed $75,000 for a single return, or $150,000 for a joint return, or if a taxpayer claims the deduction for a military pension or railroad pension. The bill still allows a taxpayer to receive the standard personal exemption, regardless of age.

c) For taxpayers born after 1952, the law eliminates any exemption of public or private pension or retirement income other than social security income and certain other types of income until the taxpayer reaches 67 years of age. Once the taxpayer reaches age 67, the bill replaces the standard personal exemption and allows an exemption ($20,000 for a single return or $40,000 for a joint return) against all types of income, including Social Security income and other types of income (including retirement and nonretirement income). The bill allows a taxpayer to forgo the $20,000/$40,000 exemption and instead deduct 100% of Social Security income and continue to claim the standard personal exemption. If a taxpayer elects to claim the $20,000/$40,000 exemption, he or she will not be allowed to claim either the deduction for Social Security income or the standard personal exemption. Regardless of age, the new law eliminates the $20,000/$40,000 exemption if total household resources exceed $75,000 for a single return, or $150,000 for a joint return, or if a taxpayer claims the deduction for a military pension or railroad pension.

© 2015 LJPR, LLC. all rights reserved