

Make the tax code work for you

Saving for retirement can save money on your taxes, too.

Your employer's retirement plan is more than a tool for saving for the future. It can also help you reduce your taxes — *now*.

Qualified retirement plans offer two important tax advantages:

1. You can receive a tax credit for a portion of your savings, depending on your income.
2. The contributions you make to a traditional retirement plan are deducted from your check *before* taxes.

If you file your taxes individually, have an income of \$26,500 or less and take no distributions during the year, you can earn a tax credit for the first \$2,000 you contribute to your retirement account. The maximum credit allowed to an individual is \$1,000 (\$2,000 x 50 percent).

A married couple filing jointly with an income of \$32,000 can receive a tax credit of \$2,000 if they each make qualifying contributions to their retirement accounts totalling at least \$4,000 and take no distributions during the year.

Tax credits for retirement plan participants¹

This chart shows the percent of your contribution (up to \$2,000) you are eligible to receive as a tax credit based on your annual adjusted gross income and tax filing status. See the IRS for filing instructions.²

Tax credit	Married, filing jointly	Head of household	All other filers
50%	\$0 – \$32,000	\$0 – \$24,000	\$0 – \$16,000
20%	\$32,001 – \$34,500	\$24,001 – \$25,875	\$16,001 – \$17,250
10%	\$34,501 – \$53,000	\$25,876 – \$39,750	\$17,251 – \$26,500
0%	More than \$53,000	More than \$39,750	More than \$26,500

¹ The participant must be over the age of 18 and cannot be a full-time student or a dependent.

² The annual adjusted gross income limits will be adjusted for inflation. These limits are valid for 2008.

The Retirement Savings Contributions Credit

The Pension Protection Act of 2006 made permanent the federal tax credit offered to retirement plan participants. Under this law, you can qualify for a tax credit of up to 50 percent of your contribution to your retirement plan or IRA, depending on your income. See the chart above for specific tax credit information.

Tax-deferred contributions

If you contribute to a traditional retirement plan, your contributions are made before taxes. Your taxable income will be reduced by the full amount you contribute, up to the IRS limit. So, if you earn \$32,000 and contribute \$4,000 to your plan, your taxable income will be no more than \$28,000.

Because they are deducted before taxes, traditional contributions reduce your take-home pay by less than the amount you actually set aside for retirement. You do not owe taxes on your savings until you withdraw from your account.

The real out-of-pocket cost

These tax advantages can make the real cost of saving for your future considerably less than the amount you actually invest. Maximize your savings today and make your plan and the tax code work for you.

To determine how the tax laws affect your specific situation, consult your tax advisor.



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