e-Financial Update

Financial Ideas & Education for CCOERA Plan Participants

Saving More at a Discount

Tax benefits make increasing retirement plan contributions a smart move

Here's some good news: You might be able to afford bigger contributions to your company's retirement savings Plan than you think.

Many workers hesitate to increase their retirement plan contributions because they worry about the bite it will take from their paycheck. Of course, higher contributions will reduce your paycheck, but it won't be dollar-for-dollar. That's because you can deduct those contributions from your taxable salary—and that tax break offsets some of the cost of your increased saving.

How Much Does Saving Really Cost?

Online calculators like the Paycheck Comparison Calculator available on your Plan's Web site make it easy to compute how much a higher retirement plan contribution will reduce your paycheck. The precise impact on your salary depends upon factors such as how much you earn and whether you file a single or joint tax return.

Consider Ray, 30, a hypothetical single taxpayer who earns $35,000 annually and makes twice-monthly contributions to a retirement savings plan (see first chart).[1] He contributes 6% of his salary, or $87.50 for each semi-monthly period. But because his taxable income is reduced by that amount, those contributions reduce his take-home pay by $71.40. That's $16.10 less than his contribution—which adds up to a significant savings over the months and years to come.

What if Ray boosts his contribution from 6% to 10% of his salary—equal to $145.83 per period? He has increased his twice-monthly contribution by $58.33, but his take-home pay declines by only $47.60.

Another way to look at it: His total $145.83 contribution reduces his paycheck by only $119.00—a total "savings discount" of $26.83 per pay period.

Making a Raise Go Further

An easy way to take advantage of the savings discount is to increase your contribution whenever you get a pay hike. For example, let's say Ray gets a promotion and his salary increases from $35,000 to $40,000 (see second chart). He continues to invest 10% of his higher salary in his retirement savings plan—but now that means he's putting away another $20.84 per pay period, for a total of $166.67. With the tax break on contributions, his $166.67 contribution reduces his pay by only $136.00.

What's more, this diligent saver still takes home $1,182.96 per pay period—more than the $1,045.90 he was earning before the raise and the corresponding increase in his contribution. Think of it as getting a raise and saving it, too!

Tax-deferred Contributions and Your Paycheck

$35,000 yearly salary, paid semi-monthly[1]

Each paycheck: Gross income $1,458.33

Plan contribution =	6% of salary	10% of salary
Dollar amount	$87.50	$145.83
Actual reduction[2]	$71.40	$119.00
Tax savings	$16.10	$26.83
Other taxes	$277.35	$266.62
Net income[1]	$1,093.50	$1,045.90

$40,000 yearly salary, paid semi-monthly[1]

Each paycheck: Gross income $1,666.67

Plan contribution = 10% of salary	
Dollar amount	$166.67
Actual reduction[2]	$136.00
Tax savings	$30.67
Other taxes	$317.04
Net income[1]	$1,182.96

1. For all examples, it's assumed that Ray claims two tax exemptions. His net income includes reductions for state tax of 3.40% of his gross income, as well as Social Security and Medicare taxes. Figures obtained from choosetosave.org calculator.

2. How much your take-home pay is reduced, or the amount of your contribution reduced by your tax savings.