

SAVING A LITTLE MORE CAN GO A LONG WAY

Increasing your retirement plan contributions

Do you really need these every day?

You probably don't realize how much you may be spending on things like coffee, lunch, movies, lottery tickets, etc., each week. The amount you spend on these items can really add up over time.

- 82% of the American work force spends approximately **\$1,000** per year on coffee-shop coffee (a weekly average of more than \$20).¹
- 89% of working Americans buy their lunch instead of packing it, spending nearly **\$1,900** per year (a weekly average of more than \$36).¹

Can you afford to contribute just 2% more?

Let's say you have an annual salary of \$50,000 and contribute at the average deferral rate of 6.8%² (\$3,400). Now, consider if you were to skip that daily coffee-shop stop and instead put the money you save into your retirement plan, increasing your contribution by 2% (going from 6.8% to 8.8%). Your out-of-pocket cost for that 2% increase would be **\$850** annually. But since you would be saving **\$150** in taxes every year, you would in fact be increasing your retirement plan contribution by **\$1,000** annually.

Paycheck analysis

	Retirement plan contribution			
	None	6.8% pretax	8.8% pretax	10.8% pretax
Annual retirement plan contribution	0%	6.8%	8.8%	10.8%
Annual retirement plan contribution	\$0	\$3,400	\$4,400	\$5,400
Gross annual income	\$50,000	\$50,000	\$50,000	\$50,000
Annual taxable income	\$50,000	\$46,600	\$45,600	\$44,600
Annual income tax ³	\$6,634	\$6,124	\$5,974	\$5,824
Estimated take-home pay	\$43,366	\$40,476	\$39,626	\$38,776
Estimated annual tax savings	\$0	\$510	\$660	\$810
Retirement balance after 30 years*	\$0	\$343,648	\$444,721	\$545,794

* Assumed rate of return is 7%. Hypothetical results are for illustrative purposes only.

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¹ Source: Accounting Principals, Workonomix survey, March 2013

² Industry averages are based on the Plan Sponsor Council of America (PSCA) 56th Annual Survey of Profit Sharing and 401(k) plans, October 2013.

³ Source: irs.gov using 2012 1040 tax table assuming married filing jointly.