



L I F E T I M E P L A N N I N G

Understanding Your Paycheck, Taxes, 401k

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www.lifetimeplanning.biz

Read Your Pay Stubs and Understand What You Keep

“You don’t pay taxes. They take taxes.” —Chris Rock

Company Name 420 Sample Street Anytown, MA, 08756				Earning Statement			
Employee Name/Address		SSN	Reporting Period	Pay Date	Employee #		
John Doe 123 Any Street Anytown, MA, 08756		XXX-XX-XXXX	01-11-2011 01-18-2011	01-19-2011	1357		
Income	Rate	Hours	Current Pay	Deductions	Total	YTD Total	
Gross Earnings	10.00	40.00	400.00	Statutory Deductions			
				FICA - Medicare	5.80	29.00	
				FICA - Social Security	24.80	124.00	
				Federal Tax	44.50	225.50	
				State Tax	35.00	140.00	
YTD Gross	YTD Deductions	YTD Net Pay	Total	Deductions	Net Pay		

Company Name 420 Sample Street Anytown, MA, 08756		Check Date 01-20-2011	Check Number 8549
Pay "289" Dollars and "90" Cents		This is not a check Direct Deposit	
Pay to order of	John Doe 123 Any Street Anytown, MA, 08756	Non-Negotiable	

1 Federal Income Tax
Based on taxable income

→ **≈10%** for single filers earning under \$10,000 up to **≈39.6%** for earnings over \$415,050 annual income

2 Social Security
Deducted as a flat percentage

→ **≈6.2%**

3 Medicare Tax
Flat percentage (FICA)

→ **≈1.45%**

4 Other Deductions
Insurance policies from employers

→ **Varies**

5 State and Local Tax
• Based on taxable income
• Not all states have income tax

→ **Varies from 0%** at state level for Texas and Florida up to **13.3%** for California (highest in nation)

6 Wage Garnishments*
Only if needed to pay off debt

→ **Only occasionally applicable**

Slide is for illustrative purposes only.

A Large Tax Refund Isn't Necessarily a Good Thing

“O.K. Marge, if anyone asks you require 24-hour nursing care, Lisa’s a clergyman, Maggie is seven people, and Bart was wounded in Vietnam.” —Homer Simpson

Psychologically, it may be better for you
Financially, it is better to owe the money at the end of the year



But the Government has Your money all year



it is better to owe the money at the end of the year



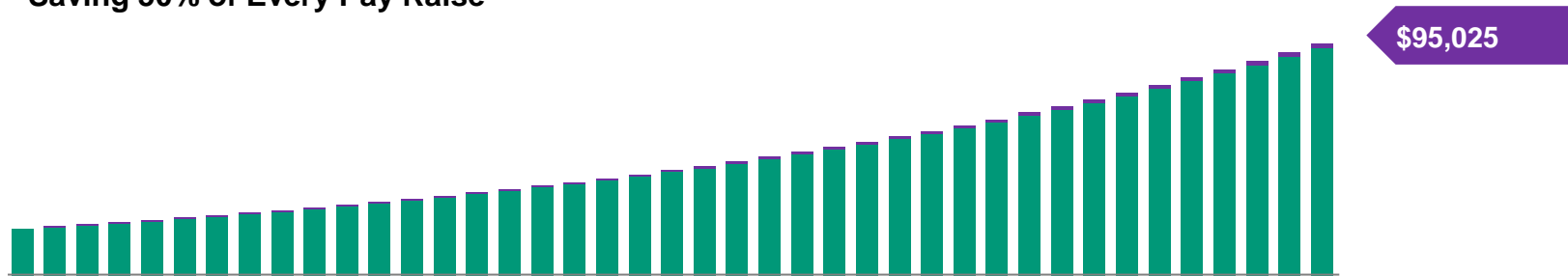
have your money all year



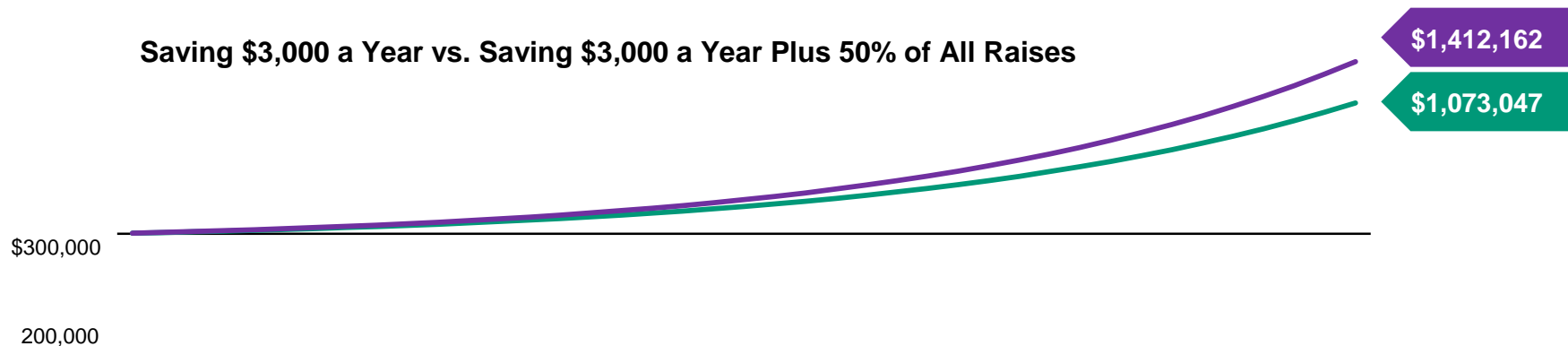
Save 30%–50% of Every Pay Raise

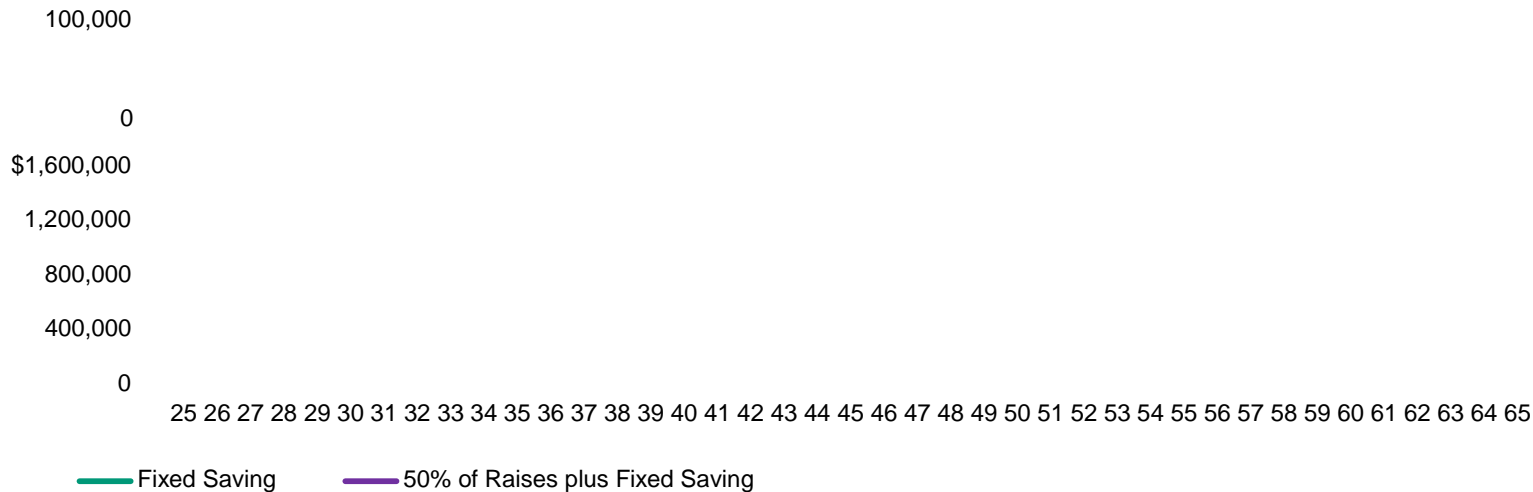
“To get rich, you have to be making money while you’re asleep.” —David Bailey

Saving 50% of Every Pay Raise



Saving \$3,000 a Year vs. Saving \$3,000 a Year Plus 50% of All Raises





Source: Assumes a starting salary of \$50,000 and 4% annual raises with a 6% average rate of return on savings in the stock market. The first savings path assumes investor starts out saving 10% or \$5,000 and continues at that level. The second scenario assumes the same savings level, but also adds in the additional savings from 50% of all annual raises. Past performance does not guarantee future results.

Start Young

“Money, says the proverb, makes money. When you have got a little, it is often easy to get more. The great difficulty is to get that little.”—Adam Smith

Growth of \$12,500 Annual Investment* by Starting Age

End Sum at Age 65



Jane

Age 25



Contributed
\$500,000



Earned \$1,563,096

\$2,063,096

Jane ended up with more retirement savings, because she started saving at age 25.



John

Age 35



Contributed
\$375,000



Earned \$685,021

\$1,060,021

John needs to save **\$11,366** annually, in order to match Jane's early start.



Susan

Age 45



Contributed \$250,000



Earned \$249,909

\$499,909

Susan needs to save **\$38,792** annually, in order to match Jane's early start.



Chris

Age 55



Contributed \$125,000



Earned \$62,146

\$187,146

Chris needs to save **\$130,647** annually, in order to match Jane's early start.

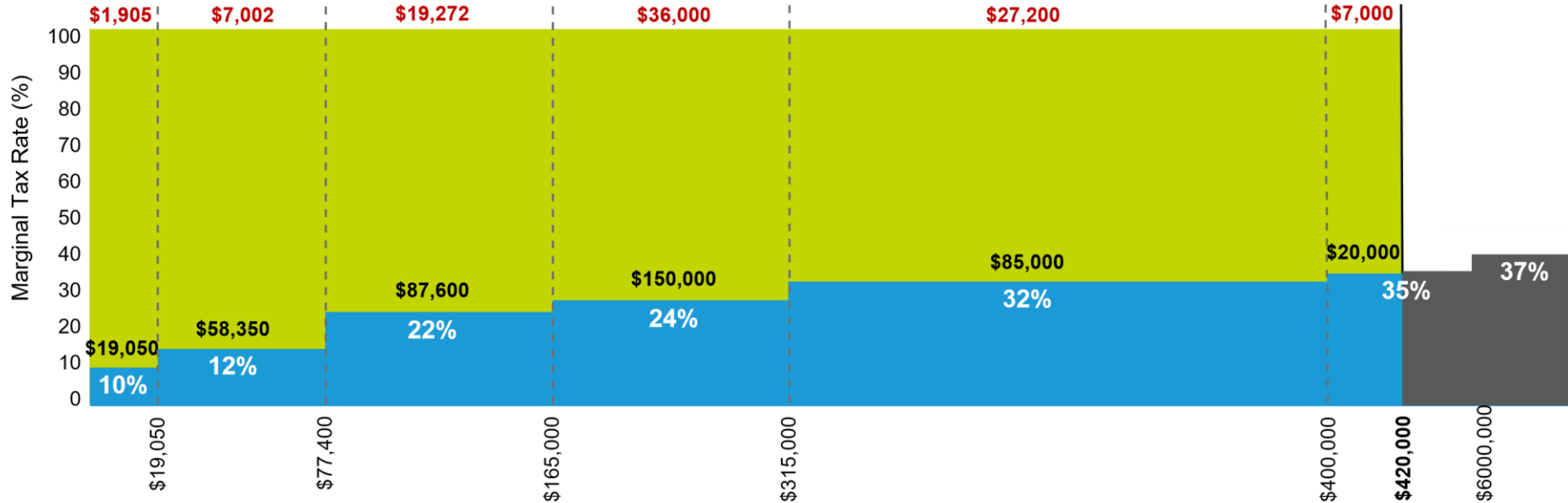
* Assumes a 6% annual return on investments through age 65. Slide is for illustrative purposes only.

Understanding the Marginal Tax System

Total Taxes **\$98,379**

Effective Rate **23%**

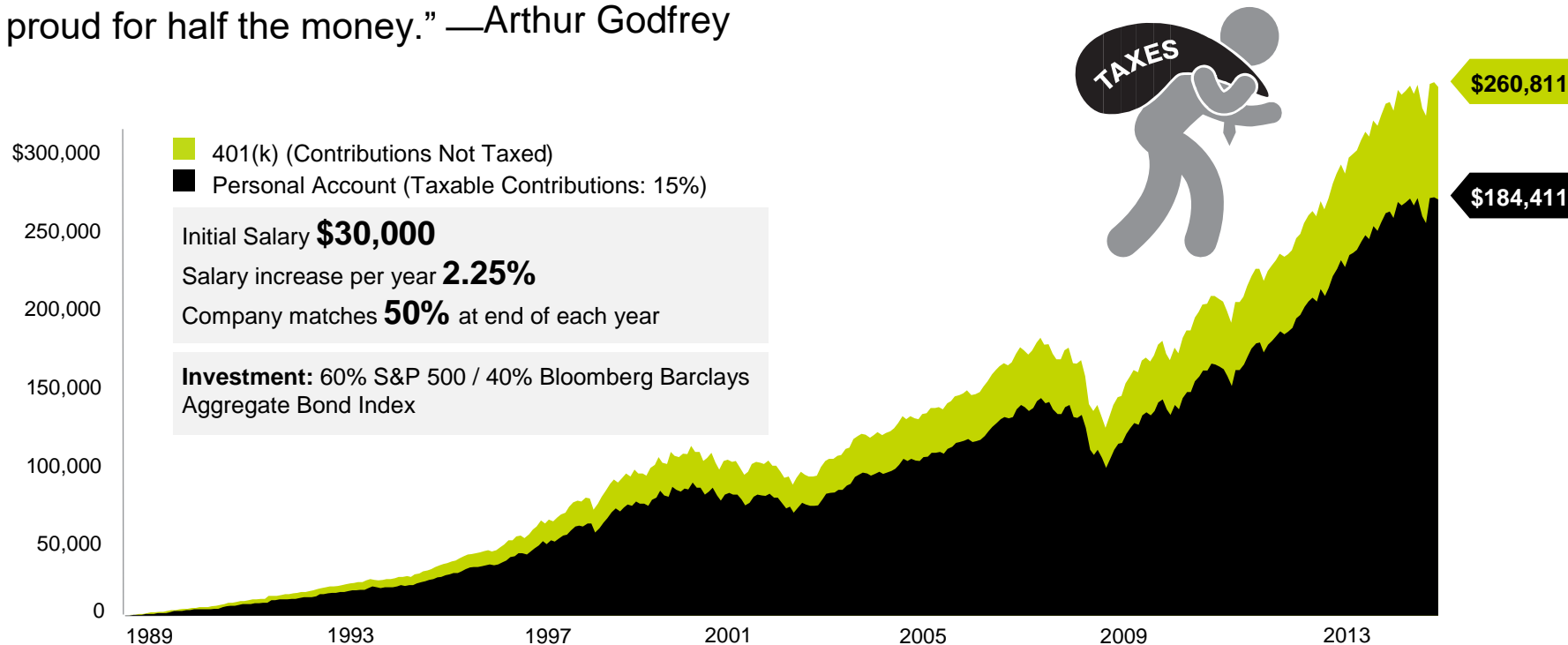
Annual Income **\$420,000**



Slide is for illustrative purposes only.

Minimize Your Taxes, Take Advantage of Free Money

“I’m proud to be paying taxes in the United States. The only thing is—I could be just as proud for half the money.” —Arthur Godfrey



What Should You Do with Your Savings?

“You loan your friend money. You see them again, they don’t say nothin’ about the money. “Hi, how ya’ doing? How’s your mama doing?” Man, how’s my money doing?” —Chris Tucker



Poor Uncle



What
will
they
take?

Whatever you have



Bank



U.S.
Trea
sury

W
h
a
t
e
v
e
r
y
o
u
h
a

\$100



When will you pay me back?

What will you give me

Some day or never

Nothing

None

ve
*

When ever you want

0.50%—
1.00%

FDIC Insured
• Up to
\$250,000

Maturities:
Liquidity:
1M, 3M, 6M, 1Y
Daily
2Y, 3Y, 5Y,
7Y, 10Y,
30Y

≈ 1% to 3%

Full faith and
credit of
U.S.
Government

for
it?

What
prote
ction
do I
have
?

- Per depositor, per bank

* Certain banks may charge a fee if you don't maintain a minimum balance.

Source: Bankrate.com and Bloomberg, 12/31/16. Past performance does not guarantee future results.

The Risk of “Safe Assets” Is that You Might End Up Running in Place

“How many millionaires do you know who have become wealthy by investing in savings accounts?
I rest my case.” —Robert Allen

Running in place

Improving your position

Scaling new heights



Certificate of deposit rate	2%
Inflation	2%

Your real return	0%
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10 Year U.S. Treasury	4%
Inflation	2%

Your real return	2%
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U.S. equities	8%
Inflation	2%

Your real return	6%
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1995–2016

(Actual real returns on \$100K)

\$100,000 → \$100,000

\$100,000 → \$154,598

\$100,000 → \$320,714

Sources: Bankrate.com, U.S. Treasury, and Standard & Poor's. Rates of return and inflation are derived using the averages from 1995 to 2016. U.S. equities are represented by the S&P 500 Index. **Past performance does not guarantee future results.**

The Difference Between Rich and Wealthy

“I’m not talking about rich. I’m talking about wealthy...Wealth is empowering...Wealth can uplift communities...Wealth is passed down from generation to generation...Rich you can lose with a crazy summer...” —Chris Rock

Rich: It’s all about income

Wealthy: It’s all about what you do with your income



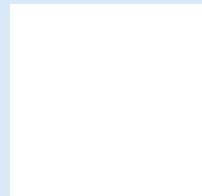
Allen Iverson
\$200M
Lifetime Earnings



Nicholas Cage
\$150M
Lifetime Earnings



The millionaire couple next door



Age (average):

57 years old

Relationship status:

Married

Children:

3

Professions:

Self employed (66%)

Average annual taxable income:

\$247,000

Average household net worth:

\$3.7 million

Average home value:

\$320,000

Education:

College degree and beyond

Likes

Dislikes

Curt Schilling
\$115M
Lifetime Earnings

Mark Brunell
\$50M
Lifetime Earnings

Living below our means: We wear inexpensive clothes and drive older cars.

Budgeting: We are very conservative with our money.

Education: We spend heavily for the educations of our offspring.

Investing: We invest nearly 20% of our household realized income each year.

Profligate spending: We believe that charity begins at home.

No margin for error: We have accumulated enough wealth to live without working for 10+ years.

Laziness and excuses: We are first generation affluent. 80% of us worked our way up.

Source: Forbes, 12/31/16. For illustrative purposes only.

Index Definitions

The 10-Year U.S. Treasury Yield is generally considered to be a barometer for long-term interest rates.

The Alerian MLP Index is a composite of the 50 most prominent energy Master Limited Partnerships (MLPs).

The Bloomberg Barclays U.S. Aggregate Bond Index is an index of U.S. Government and corporate bonds that includes reinvestment of dividends.

The Bloomberg Barclays Aggregate Corporate Bond Index represents primarily investment-grade corporate bonds within the Bloomberg Barclays U.S. Aggregate Bond Index. The Bloomberg Barclays Aggregate U.S. Treasuries Index represents public obligations of the U.S. Treasury with a remaining maturity of one year or more.

The Bloomberg Barclays High Yield Bond Index covers the universe of fixed rate, non-investment-grade debt. The JPMorgan GBI-EM Global Diversified Index tracks total returns for local-currency-denominated money market instruments in the emerging markets.

The Bloomberg Barclays Municipal Bond Index is a rules-based, market-value-weighted index engineered for the long-term tax-exempt bond market and includes bonds rated investment-grade by at least two of the three major rating agencies (Moody's, S&P and Fitch). SBBI U.S. Large Company Stock Index is an unmanaged index of stocks of large U.S. companies.

SBBI U.S. Long-Term Government Bond Index is an unmanaged index generally representative of the bond market. SBBI U.S. Small Company Stock Index is an unmanaged index of stocks of small U.S. companies.

SBBI U.S. (30-day) Treasury Bills is generally representative of the rate of return on a savings investment.

The Russell 2000 Value Index measures the performance of those Russell 2000 companies with lower price-to-book ratios and lower forecasted growth values. The Russell Midcap Index measures the performance of mid-capitalization stocks.

The Russell Midcap Growth Index measures the performance of those Russell Midcap companies with higher price-to-book ratios and higher forecasted growth values. The Russell Midcap Value Index measures the performance of those Russell Midcap companies with lower price-to-book ratios and lower forecasted growth values.

The S&P 500 Index is a market-capitalization weighted index of the 500 largest domestic U.S. stocks. Shiller Home Price Index tracks changes in home prices throughout the United States.

Treasury Inflation Protected Securities is generic U.S. Government inflation-index bonds.

The U.S. existing home sales median price tracks changes in residential property prices of existing single-family homes, condos and co-op sales.

Indices are unmanaged and cannot be purchased directly by investors. Index performance is shown for illustrative purposes only and does not predict or depict the performance of any investment. **Past performance does not guarantee future results.**

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